

VI. Cost Classification and Reporting

A. Summary of Results and Comparisons

Historically, the California utilities have received limited written guidance regarding the classification of administrative costs or allowed categories of costs, and past definitions have been too broad to allow meaningful comparisons of administrative cost levels. The Reporting Requirements Manual 2 (RRM2), first issued in 1999, outlined the required content for the Annual Report for post-1997 programs, but did not specifically define the labor, non-labor, or contract costs within the administrative cost category. As a result, the types of costs each utility reports in each Annual Report category vary considerably. The 2002 Quarterly Reporting Workbooks request cost information at a greater level of detail than the annual reports. However, the level of requested detail implies an accuracy and specificity of the reported information that may not be representative of the underlying data.

As a result of differences in accounting and reporting systems, differences in what is included in the utilities' base rates, and the lack of specificity regarding allowed energy efficiency expenditures, there are significant differences in the types of costs each utility charges against PGC funds, and administrative costs levels vary by program. As a result, caution must be exercised in making comparisons or establishing caps.

Exhibit VI-1 (page following) lists blueCONSULTING's findings by utility. Recommendations are summarized below.

Recommendations

- R1. Prior to determining administrative cost limits or performing comparative analyses, the Commission should develop consistent standards regarding what are allowable energy efficiency costs, and how these costs should be classified. It is not possible to specify minimum or maximum administrative cost limits without a solid definition of what these costs include.
- R2. The utilities and the Energy Division should work together to develop reporting requirements that meet the needs of the Commission and provide accurate, consistent information, but are not unduly burdensome for the utilities, and take into account the manner in which the utilities' accounting systems aggregate costs.
- R3. The Commission should consider a requirement that each reporting IOU file with its quarterly and annual reports an affirmation signed by an officer with the IOU that states a) that the utility has a reliable system of recording and summarizing costs; b) that the system is subjected to quality control testing, such as internal audits; c) that employees receive sufficient training in the use of the system and in Commission reporting requirements; and d) that errors found are corrected immediately and procedures reviewed to avoid similar errors occurring in the future. Absent such a positive affirmation (which all publicly-held IOUs now provide to the SEC for their financial statements as a whole), the belief that filing the annual report discharges all IOU reporting responsibilities to the Commission will continue.

R4. SCG should develop an accounting structure for energy efficiency programs which facilitates the reporting of costs in accordance with the Commission requirements. Other utilities, such as PG&E, have specifically created accounting orders in order to obtain the data necessary to meet the Commission's reporting requirements.

Exhibit VI-1: Summary of Conclusions.

All Utilities	PG&E	SCE	SDG&E	SCG
<p>1. Historically, the California utilities have received limited written guidance regarding the classification of administrative costs or allowed categories of costs, and past definitions have been too broad to allow meaningful comparisons of administrative cost levels.</p> <p>2. There is a wide range in the level of administrative costs reported by the utilities. Differences in programs and utility cost reporting make comparisons difficult.</p> <p>3. As a result of differences in accounting and reporting systems, differences in what is included in the utilities' base rates, and the lack of specificity regarding allowed energy efficiency expenditures, there are significant differences in the types of costs each utility charges to the energy efficiency program.</p> <p>4. Within the administrative cost category RRM2 did not specifically define the labor, non-labor, or contract cost categories. As a result, the types of costs each utility reports in each Annual Report category vary considerably.</p> <p>5. The Quarterly Reporting Workbooks provide cost information at an implied level of detail that may not be representative of the underlying data. There are differences in the types of the costs included for some line items, as well as in how some line item costs are determined.</p>	<p>6. The actual costs included in PG&E's Energy Efficiency Programs Annual Report generally reflect the accounting data. While there are some differences between the annual report and accounting totals each year, these differences are largely due to timing issues. PG&E assigns costs to cost categories in the Annual Reports based on the classification of costs in its SAP and MDSS/Tracker accounting systems. The costs in PG&E's Annual Reports generally reflect the definitions put forth by the Commission, although there are some minor classification discrepancies due to the structure of PG&E's accounting information.</p> <p>8. PG&E created new cost classifications in its cost accounting and tracking system in order to provide costs in the 2002 Quarterly Workbook categories. The cost classifications in the Quarterly Workbooks generally reflect the definitions put forth by the Commission, although there are some classification discrepancies due to the structure of PG&E's accounting information.</p> <p>9. PG&E's administrative cost levels vary considerably by program, ranging from 5 to 58 percent for program year 2002.</p>	<p>10. SCE classifies vendor payments for administrative and installation activities as incentive costs for selected programs (Appliance Recycling, Savings by Design and Hard-to-Reach) in its Annual Reports to the Commission. This overstates the incentive payments reported in the Annual Reports. These costs are properly included as direct implementation costs in the 2002 Quarterly Workbooks.</p> <p>11. SCE categorizes the costs in the Annual Reports based on their accounting classification. As a result, classification may differ from that used by the other utilities.</p> <p>12. blueCONSULTING's analysis identified some inconsistencies and errors in SCE's Annual Reporting of program costs.</p> <p>13. SCE's costs are directly assigned to the Quarterly Reporting Workbook cost categories using accounting codes.</p> <p>14. SCE's administrative cost levels vary considerably by program, ranging from 3 to 44 percent for program year 2002. As a result, caution must be exercised in making comparison or establishing caps.</p>	<p>15. The process that SDG&E used to assign costs to cost categories in the Annual Reports is reasonable. However, it did not report any contract costs as it did not receive sufficient guidance on what these costs included. SDG&E complied with the Commission reporting requirements to the best of its ability and knowledge of the Commission requirements.</p> <p>16. The process SDG&E uses to assign costs to cost categories in the PY 2002 Quarterly Workbooks is reasonable. The cost classifications in the PY 2002 Regulatory Reporting reports generally reflect the definitions put forth by the Commission.</p> <p>[SDG&E administrative cost comparison not performed within audit time frame.]</p>	<p>17. The costs in SCG's Annual Reports generally match the accounting data.</p> <p>18. As a result of organizational and system changes associated with the merger between SDG&E and SCG, only limited information is available regarding the processes SCG used to compile annual reports during the first three years of the audit period.</p> <p>19. SCG's regulatory reporting of energy efficiency costs evolved over time from a rudimentary, fragmented system with internal streamlined system with internal reporting standards. From a systems perspective, the reporting improved over time; however, some elements of the accounting structure remain poorly matched to the reporting requirements of the Commission.</p> <p>20. The cost classifications in the Annual Reports do not fully reflect the Commission definitions because SCG did not always distinguish between allocated, contract and non-labor costs.</p> <p>21. SCG does not report costs in all of the categories listed in the Quarterly Workbooks due to limitations in its cost information collection process. SCG reports costs based on what is available from its own cost accumulation systems. While SCG has the systems capability to report data for all relevant categories, SCG has not chosen to use its systems to provide that level of detail. SCG believes not all cost categories may be relevant. [SCG administrative cost comparison not performed within audit time frame.]</p>

Note: Conclusion numbers correspond to numbered conclusions located at the end of each utility section.

B. Background and Approach

1. RFP Task Area

Investigate and verify the level of administrative expenditures associated with PGC-funded programs.

2. Objectives

- Determine the criteria or guidelines used by each utility for distinguishing between administrative and other program costs.
- Determine the nature of costs classified as administrative by each utility and identify any differences.

3. Background

Annual Reporting Requirements

Each year as part of the AEAP the utilities prepare and submit Energy Efficiency Annual Reports to the Commission. These reports provide a narrative discussion of the programs' progress and achievements during the previous program year and goals and milestones for the upcoming program year. The RRM2, first issued in 1999, outlined the required content for the Annual Report for post-1997 programs.ⁱ The purpose of the reporting requirements manual is to set forth (1) common definitions for use in reporting program costs and effects and (2) standard tables which identify the kinds of program activities and results that should be reported for each program. RRM2 required the utilities to report authorized, budgeted and recorded costs, net effects and cost-effectiveness by program area (i.e., residential, nonresidential, and new construction) and program type. Market Assessment and Evaluation (MA&E), shareholder performance incentives, and low-income program results were also reported as separate chapters.

Utilities report both "actual" and "committed" costs in the Annual Reports. Actual costs are reported for the first year of the program year. Committed costs are projected future payments to customers for that program year program, as well as associated administrative costs. Due to the time required to complete energy efficiency improvements for certain programs, incentive payments may be made up to several years after a program is initiated, but are considered part of the program year under which the commitment was made.

The Annual Report is comprised of a main report and a technical appendix. As shown in **Exhibit VI-2**, both sections of the annual report contain only summary level cost information. The cost data provided in the main report consists of the budgeted and recorded (actual plus

ⁱ The initial Reporting Requirements Manual (RRM) was prepared in 1987 by the Division of Ratepayer Advocates (now the ORA) and the Commission Advisory and Compliance Division (now the Energy Division). In 1999 the RRM was separated into two documents: RRM1 is a streamlined version of the original RRM for reporting on DSM programs administered prior to January 1, 1998; RRM2 is used for programs administered since January 1, 1998. The latest version of RRM2, dated May 1999, incorporates the consensus items reached during Energy Division workshops convened in March 1999.

committed) costs for the various program areas, MA&E and regulatory oversight and shareholder incentives. The technical appendix provides additional documentation of the program area costs reported in the main report; however, there is no detailed breakdown of program costs by activity type beyond “incentives” and “administrative.”

Exhibit VI-2: Annual Reports Provide Information at a Summary Level

Main Report	
Cost Category	Additional Detail
Residential (Recorded)	None
Nonresidential (Recorded)	
New Construction (Recorded)	
MA&E and Regulatory Oversight [Note1]	
Shareholder Incentives	
Unallocated	

Note 1: These costs are not addressed in the Technical Appendix.

Technical Appendix	
Breakdown of Program Costs	Additional Detail
Incentives (Actual and Committed)	
Administrative (Actual and Committed)	Labor (direct) Non-Labor (direct) Contract (direct) Allocated
Shareholder Incentives	
Other	

Source: D.97-02-014.

2002 Quarterly Workbook Requirements

Pursuant to the Commission’s Energy Efficiency rulemaking proceeding, R. 01-08-028, beginning the second quarter of 2002, the utilities submit Quarterly Workbooks to the Energy Division. These workbooks provide greater segregation of costs than those reported in the Annual Reports, and a further breakdown of costs within each broad category. Administrative costs are broken down into six categories: labor; benefits; travel costs; information services; materials and handling; and overhead, general and administrative costs. In addition to these administrative costs, utilities also report on marketing, advertising, and outreach costs; direct implementation costs (including financial incentives); evaluation, measurement and verification costs (EM&V); and other costs such as financing costs and any profits associated with program delivery. EM&V costs are reported in the same categories as the administrative costs (e.g., labor, benefits).

As shown in **Exhibit VI-3**, the Quarterly Workbook cost breakdown separates marketing, advertising and outreach, and EM&V costs from administrative costs, whereas all of these costs are treated as “administrative” in the Annual Report filing. A description of each of the required Quarterly Workbook categories is provided in **Exhibit VI-4** (page following).

Exhibit VI-3: 2002 Quarterly Workbooks Provide a More Detailed Breakdown of Energy Efficiency Costs Than the AEAP Annual Reports

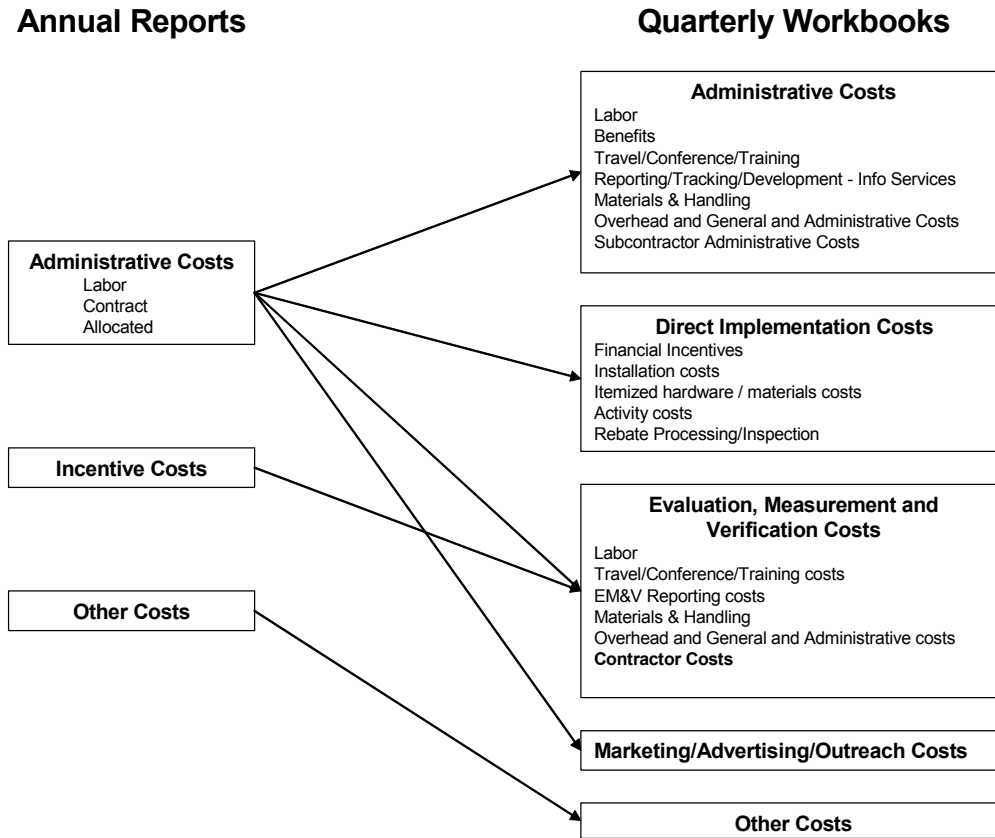


Exhibit VI-4: 2002 Quarterly Workbooks Have Many Cost Categories

Cost Category	Description
Administrative Costs	
Labor	
Type A - Program Planning /Design/Program Mgmt.	Includes labor (including temporary agency) associated with the analysis, planning, and/or managing the activities of the programs throughout the program year.
Type B - Mgmt./Supervisor	Includes labor (including temporary agency) incurred in managing, supervising, or directing activities.
Type C - Clerical Support	Includes administrative support such as clerical and secretarial support includes temporary agency labor.
Benefits	
Pensions & Benefits -	Health care, workers compensations, long-term disability, life insurance, accidental death & dismemberment, benefits administration, and pension plan incl. vacation and sick leave.
Payroll Taxes -	Includes state, federal payroll, and social security taxes.
Travel Costs	
Type A - Mileage and Parking	Includes mileage and parking fees, airfares, taxis, etc.
Type B - Other - Meals, Lodging, Misc. Expenses	Includes meals and lodging and other expenses.
Type C - Conference/Training Activities	Includes course registration fees, conference fees, and other miscellaneous costs.
Reporting/Tracking/Development – Information Services	
Reporting/Tracking/Development – Information Services:	Includes expenses incurred by reporting, tracking, and development information services and support personnel for the development and maintenance of computer programs and systems.
Materials and Handling:	
Materials and Handling	Includes labor, material, contract and other miscellaneous expenses incurred for the acquisition, distribution and logistics of material, equipment and contract services.
Overhead and General and Administrative Costs	
Type A - Regulatory Support	Includes services in support of regulatory filings, reporting, data requests (including data requests from other program implementers, utilities or Commission) and other compliance issues.
Type B - Accounting Support	Includes accounting services for program related expenses including budgetary and internal controls activities.
Type C - Communications/ Telecommunications/Automated Systems Support	Includes services in support of internal communications and automated systems. Also includes telecommunication equipment support and personal computer usage.
Type D - Human Resources Support	Includes services in support of human resources activities directly related to program.
Type E – Facilities Costs	Includes building and lease costs including related office expenses (e.g., building maintenance, lighting, etc.).
Type F – Supervision	Includes allocated cascading supervision costs received from Director and VP of organizations administering and implementing energy efficiency programs.
Type G – Corporate Services	Includes labor, material, contract and other miscellaneous expenses relating to corporate records retention, document management, drawing management, and graphics. Also includes corporate support services departments (e.g., human resources, legal, controllers, treasurers, benefits support, corporate administration, etc.).
Type H - Transportation Services, Shop Services	Includes labor, material, contract and other miscellaneous expenses incurred to supply and maintain vehicles, apparatus tests and maintenance. Includes costs related to usage of company pool cars in conducting activities related to implementing energy efficiency programs.

Exhibit VI-4: 2002 Quarterly Workbooks Have Many Cost Categories

Cost Category	Description
Type I - Information Technology	Includes labor, material, contract and other miscellaneous expenses relating to mainframe services, distributed services, desktop services, communication services, and general services.
Type J - Procurement and Material Management -	Includes general costs such as postage, office service requests, inspection and repair of office machines, copy machine lease/rental costs, cellular phone usage, and other organization support costs.
Subcontractor Costs (Does Not Include Direct Implementation Costs)	
Labor	Includes labor associated with the analysis, planning, and/or managing the activities of the programs throughout the program year. Also, includes labor incurred in managing, supervising, or directing activities, including administrative support such as clerical and secretarial support. Labor costs should include only those paid to the employees or employee's agency, i.e. should not be fully-loaded or include any adders.
Benefits	Health care, workers compensations, long-term disability, life insurance, accidental death & dismemberment, benefits administration, and pension plan. Also, includes state, federal payroll, and social security taxes.
Overhead	Includes labor, material, contract and other miscellaneous expenses relating to corporate records retention, document management, drawing management, graphics support, supply and maintain vehicles, apparatus tests and maintenance, computer desktop services, communication services, general services, and contract services.
Travel costs	Includes mileage and parking fees, airfares, taxis, meals and lodging, course registration fees, conference fees, and other miscellaneous costs.
Reporting/Tracking/ Development – Information Services	Includes expenses incurred by reporting, tracking, and development information services and support personnel for the development and maintenance of computer programs and systems.
Materials & Handling	Includes labor, material, contract and other miscellaneous expenses incurred for the acquisition, distribution and logistics of material, equipment and contract services.
Overhead and General and Administrative costs	General support activities such as: regulatory support (including data requests), accounting support, information services support, automated systems support, human resources support, facilities costs, internal audits, job skills training, mgmt. supervision, corporate services, transportation services, information technology, organizational communications and procurement and materials management.
Profit	Represents any profits associated with program delivery including any labor adders (e.g., fully loaded labor rates), or mark-ups on retail/wholesale materials costs, etc.
Marketing, Advertising and Outreach Cost	
Type A - Brochures/Booklets	Examples include expenses for associated with brochures/booklets.
Type B - Media Support	Examples include expenses related to electronic or printed media advertising and other miscellaneous media support activities.
Type C - Outreach	Examples include costs associated with program outreach requiring customer interface.
Direct Implementation Costs	
Financial Incentives:	Examples include cash incentive payments made to customers for their participation in certain programs.
Installation Costs:	Examples include cost to install energy efficient equipment. This cost may be considered part of the customer financial incentive costs.
Itemized hardware/materials costs:	Examples include cost of equipment and other materials used in direct install programs, cost of materials for educational or informational programs, etc. (primarily for direct install and information/education programs)
Activity Costs:	Examples include cost to perform an audit including technical specialists support for customers or training.
Rebate Processing/Inspection:	Examples include cost to process rebates/incentives including customer phone center support, reservation systems, and field inspection support.

Exhibit VI-4: 2002 Quarterly Workbooks Have Many Cost Categories

Cost Category	Description
Evaluation, Measurement and Evaluation Costs	
Labor	
EM&V labor	Includes EM&V labor incurred in managing, supervising, or directing measurement and evaluation activities, including administrative support such as clerical and secretarial. Labor costs should include only those paid to the employees or employee's agency.
Pensions & Benefits	Health care, workers compensations, long-term disability, life insurance, accidental death & dismemberment, benefits administration, and pension plan.
Payroll Taxes -	Includes state, federal payroll, and social security taxes.
Travel Costs	
Type A - Mileage and Parking	Includes mileage and parking fees, airfares, taxis, etc.
Type B - Other - Meals, Lodging, Misc. Expenses	Includes meals and lodging and other expenses.
Type C - Conference/Training Activities	Includes course registration fees, conference fees, and other miscellaneous costs.
Reporting/Tracking/Development – Information Services:	
Repot 1	EM&V report cost, i.e., consultant costs (e.g., Report 1 = \$60,000, Report 2 = \$85,000, etc.).
Materials and Handling:	
Materials and Handling	Includes labor, material, contract and other miscellaneous expenses incurred for the acquisition, distribution and logistics of material, equipment and contract services.
Overhead and General and Administrative Costs:	
Type A - Regulatory Support	Includes services in support of regulatory filings, reporting, data requests (including data requests from other program implementers, utilities or Commission) and other compliance issues.
Type B - Accounting Support	Includes accounting services for program related expenses including budgetary and internal controls activities.
Type C - Communications/ Telecommunications/Automated Systems Support	Includes services in support of internal communications and automated systems. Also includes telecommunication equipment support and personal computer usage.
Type D - Human Res. Support	Includes services in support of human resources activities directly related to program.
Type E – Facilities Costs	Includes building and lease costs including related office expenses (e.g., building maintenance, lighting, etc.).
Type F – Supervision	Includes allocated cascading supervision costs received from Director and VP of organizations administering and implementing energy efficiency programs.
Type G – Corporate Services	Includes labor, material, contract and other miscellaneous expenses relating to corporate records retention, document management, drawing management, and graphics. Also includes corporate support services departments (e.g., human resources, legal, controllers, treasurers, benefits support, corporate administration, etc.).
Type H - Transportation Services, Shop Services	Includes labor, material, contract and other miscellaneous expenses incurred to supply and maintain vehicles, apparatus tests and maintenance. Includes costs related to usage of company pool cars in conducting activities related to implementing energy efficiency programs.
Type I - Information Technology	Includes labor, material, contract and other miscellaneous expenses relating to mainframe services, distributed services, desktop services, communication services, and general services.
Type J - Procurement and Material Management	Includes general costs such as postage, office service requests, inspection and repair of office machines, copy machine lease/rental costs, cellular phone usage, and other organization support costs.

Exhibit VI-4: 2002 Quarterly Workbooks Have Many Cost Categories

Cost Category	Description
Other Costs	
Financing Costs	Represents any financing costs associated with program delivery.
Profit	Represents any profits associated with program delivery including any labor adders (e.g., fully loaded labor rates), or mark-ups on retail/wholesale materials costs, etc.
Less Costs Not Charged to this Program	(e.g., benefits recovered by alternate means, as noted above)

Source: R. 01-08-028 – Local and Statewide Energy Efficiency Program Reporting Requirements for years 2002 and 2003.

4. Audit Procedures

blueCONSULTING performed the following procedures in this audit area:

- Identified requirements related to the reporting of energy efficiency program costs.
- Determined whether the utilities' classification of costs in the Annual Reports and Quarterly Reports reflected the definitions put forth by the Energy Division.
- Determined whether the utility's accounting records contain all required line item information or whether the utility made assumptions to provide certain line items included in the Quarterly Reports.
- Compared administrative expenditures among the utilities.
- Identified any differences in the classification of administrative cost line items.
- Compared administrative cost definitions used in California with those in other states.
- Developed recommendations and prepare a task report in this area.

5. Sampling Techniques

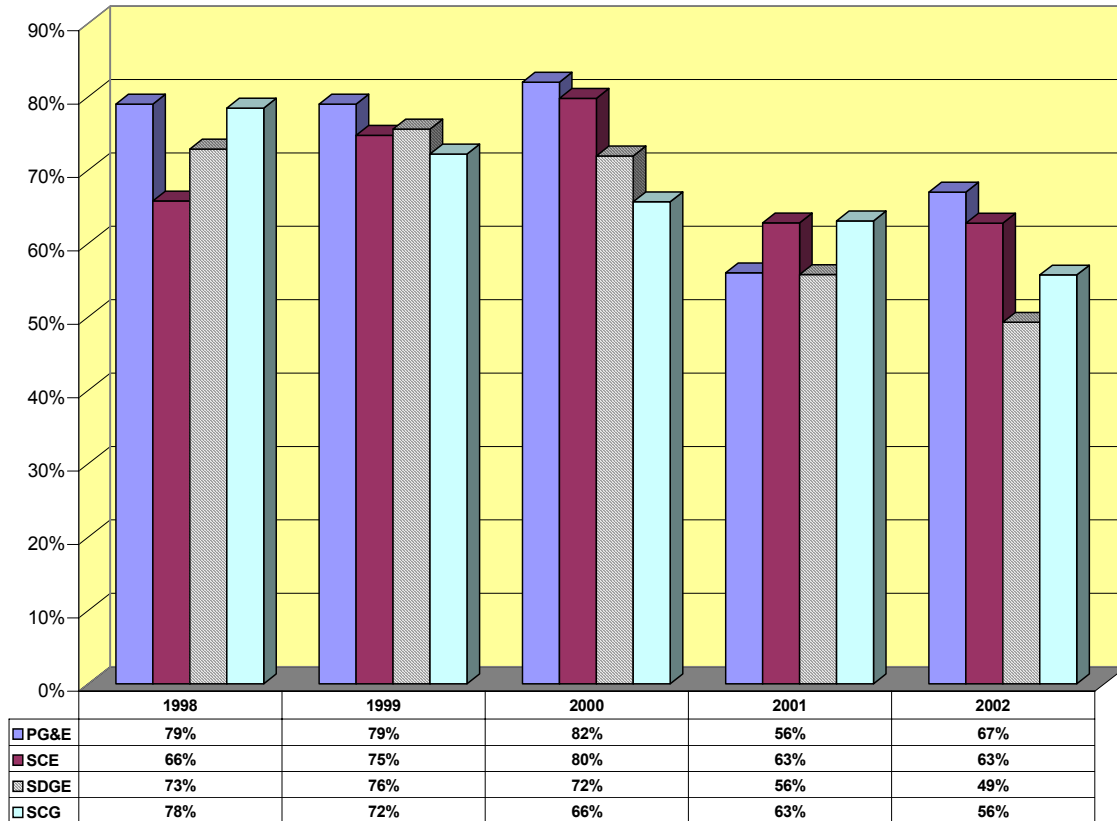
Not applicable to this area of audit investigation.

C. Overview of Administrative Costs**1. Administrative Cost Levels (1998-2002)**

During the audit period, more money was spent by the utilities in the administration and delivery of energy efficiency programs than in financial incentives paid to the customer. For example, in 1998, only 19 percent of PG&E's first year program costs were paid as incentives to customers. During the market transformation era (1998-2000), the focus of the California energy efficiency programs was on the development of a robust market for energy efficiency products and services such that in the future no utility subsidies would be required. As shown in **Exhibit VI-5**, during that period reported administrative costs were high relative to the financial incentives delivered. In 2001, with the advent of the energy crisis, the focus of the California programs shifted to

resource acquisition. Relative administrative cost levels decreased as a result of increased customer interest in energy efficiency, and the change in program focus.

Exhibit VI-5: First Year Administrative Costs for All Utilities Decreased During the 1998-2002 Audit Period [Note 1]



Note 1: Costs includes MA&E and general administrative and overhead costs in addition to program specific administrative costs, but do not include Summer Initiative costs.

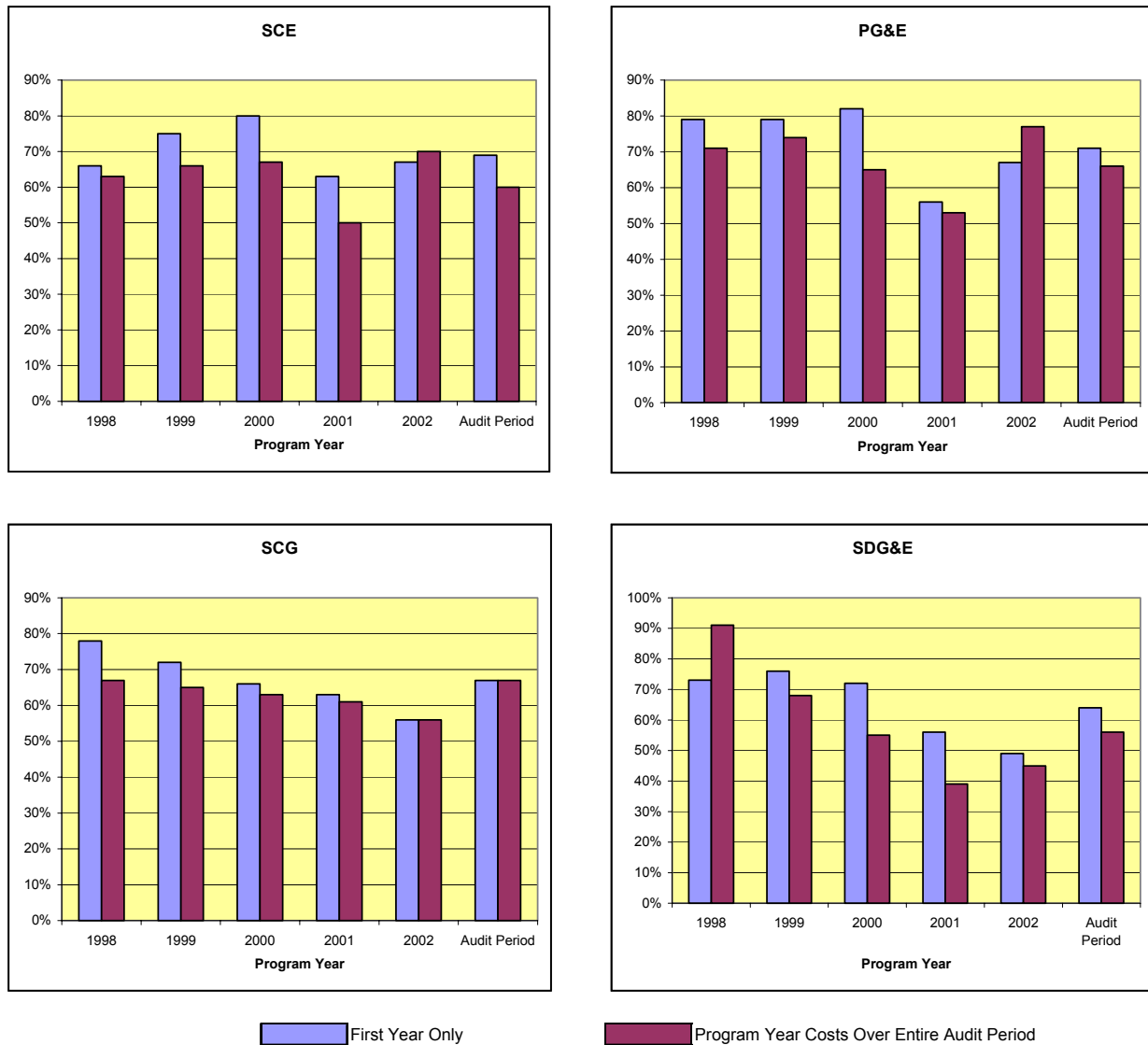
Source: 1998-2002 Energy Efficiency Annual Reports, Technical Appendix Tables 2.1, 3.1 and 4.1 and Executive Summary Table 1.1.

Exhibit VI-5 (above) compares first year administrative and other cost percentages by year for each utility using the Annual Report definitions. Under the Annual Report definition, the majority of costs are classified as “administrative.” **Exhibit VI-5** only reflects first year costs and does not include commitments, and therefore overstates the relative level of administrative costs for the program as a whole. Not all programs are completed within a calendar year. Certain nonresidential and new construction programs require time-consuming installation, and incentives may not be paid until three years after funds are committed. Administrative cost levels decrease when these incentive payments are made in subsequent calendar years.

A general comparison of first year administrative (non-incentive) costs and costs over the entire audit period is shown in **Exhibit VI-6**. With the exception of SDG&E’s Program Year 1998, the

administrative percentages decrease with the inclusion of costs beyond the first year. The information shown in Exhibit VI-6 is for general comparison purposes only. For some utilities, the Audit Period data may reflect all costs for the PY year programs, including Summer Initiative Programs (PY 2000), State-wide marketing (PY 2002) and Non-IOU Programs (PY 2002), not just those included in annual report categories.

Exhibit VI-6: The Relative Level of Administrative (Non-Incentive) Costs Generally Decreases with the Inclusion of Costs Beyond the First Year



Note: These percentages for the First Year Program Costs are based on Annual Report data and reflect the Residential, Non-Residential and New Construction program costs, MA&E, and Regulatory Oversight. They do not reflect the costs of Summer Initiatives. The percentages for the entire period are based on accounting data and may include all costs for the PY year programs, including Summer initiatives (PY 2000), State-wide marketing (PY 2002) and Non-IOU Programs (PY 2002).

Source: 1998 – 2002 Utility Annual Reports; Reconciliation of Annual Report and Accounting Data (Data Response PGE-EAL-010); PG&E Energy Efficiency Cost Data (Data Response PGE-DP-3.2 Follow-up).

2. Administrative Cost Levels Under the 2002 Quarterly Workbook Definition

The Quarterly Workbook requirements provide a more narrow definition of administrative costs used in the annual reports, resulting in relatively lower levels of administrative costs. As discussed later in this Chapter, this revised definition is more consistent with that used by other utilities surveyed.ⁱⁱ **Exhibit VI-7** and **Exhibit VI-8** illustrate the effect of the revised definition on administrative cost levels, using SCE as an example. At blueCONSULTING's request, SCE reclassified historic costs using the Quarterly Reporting format. Numbers presented are approximate, as prior to PY 2002 administrative costs were not tracked and reported in the same format. Before 2002 various administrative and direct implementation functions could have been used for different activities depending on tracking and reporting requirements of the programs. Moreover, in 2002 various accounting codes were established to comply with the Quarterly Reporting requirements.

Exhibit VI-7: Using Quarterly Workbook Definition of Administrative Costs and Examining Costs Over the Entire Audit Period Results in Lower Administrative Levels Than Reflected in the Annual Reports, as Shown in this SCE Example

Program	Administrative Cost Levels		
	Annual Report First Year Costs [Note 1]	Quarterly Report 1998-2002 Costs [Note 2]	Difference
1998	65.8%	25.3%	40.5%
1999	74.7%	23.6%	51.1%
2000	79.8%	23.2%	56.6%
Summer Initiative (2000)	8.0%	0.2%	7.8%
2001	62.8%	18.3%	44.5%
2002 – 3 months	62.8%	38.4%	24.4%
2002 – 9 months		18.1%	44.7%
Total	64.9%	20.6%	44.3%

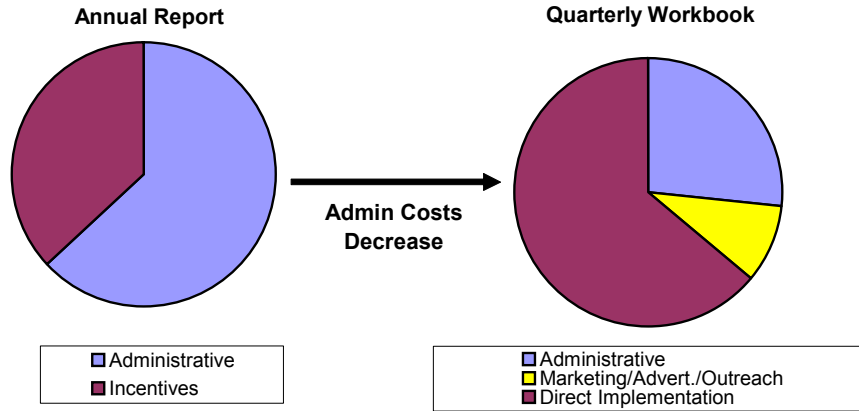
Note 1: Includes General Support Costs (Regulatory, Accounting, Human Resources and Facilities Support) and MA&E. Costs for first year of program year only.

Note 2: Numbers presented are approximate. Includes General Support Costs (Regulatory, Accounting, Human Resources and Facilities Support). Costs for 1998-2002 for each program year.

Source: 1998-2002 SCE Energy Efficiency Annual Reports; Response to SCE Document Response 141.

ⁱⁱ See results of blueCONSULTING's survey provided later in this chapter.

Exhibit VI-8: Administrative Costs are Much Lower Using the Quarterly Workbook Definition for a Given Program Year, as Shown in this SCE Example for 1998



Source: 1998-2002 SCE Energy Efficiency Annual Reports; blueCONSULTING analysis; Response to Data Response 77.

Administrative cost levels vary considerably by program as shown in **Exhibit VI-9**, which provides administrative costs as a percentage of total annual expenditures for selected 2002 statewide programs using the Quarterly Reporting format. The utility reporting the highest administrative cost levels for each program is shaded. The Annual Reports do not report costs for individual programs; costs are reported by program category (energy efficiency incentives, energy management services, information and upstream.)

Exhibit VI-9: Administrative Cost Levels Vary by Program and Utility. The Highest Costs are Highlighted (April – December 2002)

Program	Percentage Admin Costs			
	PGE	SCE [Note 1]	SDGE	SCG
Information				
Education and Training	26%	45%	66%	62%
Energy Management Services				
Home Energy Surveys	23%	20%	22%	31%
Energy Efficiency Incentives				
Residential				
Single Family Rebates	26%	13%	13%	17%
Multi Family Rebates	38%	17%	14%	15%
Nonresidential				
Express Efficiency	32%	27%	15%	33%
SPC	41%	18%	12%	No program
New Construction				
Savings by Design	57%	42%	21%	52%
Multi Family Energy Star New Homes	88%	22%	20%	62%
Single Family Energy Star New Homes	47%	27%		

Note 1: Includes allocated General Support costs. Source: Quarterly Workbooks for Quarters 2-4, 2002.

SDG&E generally had lower administrative costs during this time period than the other utilities. However, its administrative costs for Education and Training (66 percent) are the highest of the utilities. PG&E has the highest administrative costs for the majority of the programs selected. New construction program first year administrative cost levels tend to be the highest. These cost level will decline somewhat over the program lifecycle.

3. Comparison of Administrative Costs to Other Utilities

To better understand the California utilities' energy efficiency administrative expenses, data were collected and summarized on electric and gas demand-side management (DSM) program administrative expense definitions used by 17 organizations in 6 states (see **Exhibit VI-10**). These organizations have a combined annual DSM budget of over \$382 million. As part of this survey, blueCONSULTING also obtained information on the utilities administrative cost levels, which is provided in **Appendix C**.

Two of the organizations surveyed (New York State Energy Research & Development Authority (NYSERDA) and Efficiency Maine) are operated by the states and provide energy efficiency services statewide. Cape Light Compact is a municipal electricity aggregator organization that provides energy efficiency services to 21 towns in Massachusetts. All of the programs are mature except for the programs in the startup phase operated by Cape Light Compact and Efficiency Maine. Cape Light Compact has only been operating programs for a couple years and Efficiency Maine for a little over a year.

Administrative expenses for the surveyed utilities can be generally classified into the following categories.

- **Internal Labor, Benefits, Travel, and Other Expenses** – These costs include internal staff labor and benefits for analyzing, planning, designing, administering, managing, supervising, reporting, and tracking of DSM programs.
- **Overhead And General Administrative Costs** – These costs include regulatory support, accounting support, telecommunications, human resource support, facility costs, supervision by top management, corporate services (legal, financial, etc.), shop services for transportation and equipment, information technology, and general costs (cell phone usage, office machine repair, postage, etc.).
- **Non-Implementation Subcontractor Costs** – These costs include subcontractor labor, benefits, travel, and other expenses, subcontractor overhead and general administrative costs, and profit. It does not include subcontractor costs for implementing or evaluating programs.
- **Other Administrative Costs** – These costs include any other costs not specifically described above.

Exhibit VI-10: Utilities Included in Administrative Cost Comparison Have a Combine Annual DSM Budget of More Than \$382 Million

Organization	State	Admin Structure	Type of Organization	Annual DSM Budget (\$000)
Connecticut Light & Power	CT	Similar to CA in 1998 – 2000 timeframe with independent advisory board.	Electric Utility	\$39,021
United Illuminating	CT	Similar to CA in 1998 – 2000 timeframe with independent advisory board. Internal utility staff.	Electric Utility	10,895
Efficiency Maine	ME	Public service commission staff.	State Energy Efficiency	1,300
Cape Light Compact	MA	Town staff with a 21-town governing board.	Municipal Collaborative	6,454
Massachusetts Electric Company	MA	Internal utility staff.	Electric Utility	54,877
Western Massachusetts Electric	MA	Internal utility staff.	Electric Utility	10,176
Granite State Electric Company	NH	Internal utility staff.	Electric Utility	1,204
Conectiv Power Delivery	NJ	Internal utility staff – managed jointly with other utilities.	Electric Utility	9,323
Jersey Central Power & Light	NJ	Internal utility staff – managed jointly with other utilities.	Electric Utility	29,279
New Jersey Natural Gas Company	NJ	Internal utility staff – managed jointly with other utilities.	Gas Utility	3,807
NUI Elizabethtown	NJ	Internal utility staff – managed jointly with other utilities.	Gas Utility	3,077
Public Service Electric & Gas - Electric	NJ	Internal utility staff – managed jointly with other utilities.	Electric & Gas Utility	39,607
Public Service Electric & Gas - Gas	NJ	Internal utility staff – managed jointly with other utilities.	Electric & Gas Utility	13,434
Rockland Electric Company	NJ	Internal utility staff – managed jointly with other utilities.	Electric	609
South Jersey Gas Company	NJ	Internal utility staff – managed jointly with other utilities.	Gas Utility	2,966
NY State Energy R&D Authority	NY	Public Benefit Corp with admin expenses capped at 5%.	State Public Benefit Corporation	139,963
Narragansett Electric Company	RI	Internal utility staff.	Electric Utility	16,708
Total				\$382,699

Source: blueCONSULTING 2003 survey.

DSM programs where information is available for these four categories of expenses include those delivered by: New York State Energy Research & Development Authority (NYSERDA), Efficiency Maine, Cape Light Compact, Massachusetts Electric Company, Granite State Electric Company, Narragansett Electric Company, Connecticut Power Delivery, Jersey Central Power & Light, New Jersey Natural Gas Company, NUI Elizabethtown, Public Service Electric & Gas, Rockland Electric Company, and South Jersey Gas Company. Connecticut Light & Power and United Illuminating only had specific information available on two categories: *Internal Labor, Benefits, Travel, and Other Expenses* and *Other Administrative Costs*.

Internal Labor, Benefits, Travel, and Other Expenses

All the programs consider internal staff labor and benefits associated with non-implementation activities an administrative expense. These internal staff are involved in planning and designing DSM programs, analyzing results, managing and supervising internal staff and outside contractors, evaluating programs, tracking results, and providing clerical and secretarial support. All the programs consider expenses incurred by DSM non-implementation staff as administrative. These expenses include: mileage, air fare, tolls, parking, trains, lodging, meals while traveling, land line and cell phone telephone expenses while traveling, registration fees for conferences and courses associated with DSM programs, and other miscellaneous expenses such as books, and equipment. Since many organizations only use outside contractors for implementation services, all DSM staff labor, benefits, and expenses are usually considered administrative. However, there are a few exceptions (Granite State Electric Company and all the New Jersey utilities) where DSM staff is used to help implement the programs – mostly to interact directly with their customers to sell the programs.

Overhead and General Administrative Costs

Overhead and general administrative costs consist of the following expenses: regulatory support, accounting support, telecommunications, human resources support, facility costs, supervision by top management, corporate services (e.g., legal and financial services), shop services for transportation and equipment, information technology, and general costs (e.g., cell phone usage, office machine repair, postage). With one exception (Western Massachusetts Electric Company) all of the organizations consider these overhead and general administrative costs as part of their DSM administrative expenses. Western Massachusetts Electric Company does not consider telecommunications, human resource support, facility costs, shop services for transportation and equipment, supervision by top management, corporate services, information technology, and general costs to be administrative expenses.

Organizations account for these costs differently. For example:

- Efficiency Maine includes an overhead markup on staff expense that covers such costs as telecommunications equipment, building expenses, copy machines, and computer equipment. Massachusetts Electric uses historically incurred costs for general overhead line items.

- NYSERDA's Indirect Costs (indirect salaries, benefits, indirect administrative expenses including the mortgage interest on their building) come from its administrative departments (Executive, Finance, Contracts, Human Resources, Computer Systems, Administrative Services, Communications, and Legal). These costs are allocated proportionately based on Direct Labor (program) dollars through an allocation process. Below are the general ledger accounts NYSERDA uses to track its costs.

- | | | |
|---------------------------------|--------------------------|------------------------|
| • Salaries | • Maintenance and Repair | • Business Meetings |
| • Benefits | • Publications | • Dues and Memberships |
| • Data Processing | • Postage | • Automotive |
| • Supplies | • Conferences/Seminars | • Telephone |
| • Miscellaneous Office Supplies | • Relocation | • Equipment Rental |
| • Outside Technical Reviewers | • Advertising | • Office Equipment |
| • Printing | • Business Meetings | • Depreciation |

Non-Implementation Subcontractor Costs

These costs include subcontractor labor, benefits, travel, and other expenses, subcontractor overhead and general administrative costs, and profit. Typically, subcontractor non-implementation tasks include program planning, technical support, and program management/administration. It does not include marketing, promotion, sales, market research, or evaluation.

Not all organizations surveyed treat subcontractor non-implementation costs the same:

- **Organizations that consider contractor non-implementation costs as administrative** include Efficiency Maine, Massachusetts Electric Company, Granite State Electric Company, Narragansett Electric Company, Cape Light Compact, Connecticut Light & Power, and United Illuminating.
- **Organizations that consider all contractor costs as implementation** include Western Massachusetts Electric, Connecticut Power Delivery, Jersey Central Power & Light, New Jersey Natural Gas Company, NUI Elizabethtown, Public Service Electric & Gas, Rockland Electric Company, and South Jersey Gas Company. NYSERDA includes all contractor costs under implementation with one exception. NYSERDA may pay a stipend or actual costs to an outside contractor to participate in a technical review committee with other entities to review program designs or results.

Other Administrative Costs

There are a few organizations that consider several other types of costs as administrative expenses. Efficiency Maine includes evaluation expenses as administrative costs. Connecticut Light & Power and United Illuminating consider an audit of the programs required by the Department of Public Utilities (DPU) and DPU performance incentives as administrative evaluation costs. Performance incentives are monetary incentives that the DPU provide utilities to meet specific DSM program goals and milestones.

D. Utility Cost Classification and Reporting

1. Conclusions

All Utilities

C1. Historically, the California utilities have received limited written guidance regarding the classification of administrative costs or allowed categories of costs, and past definitions have been too broad to allow meaningful comparisons of administrative cost levels.

- RRM2 provides only general definitions of program administrative and incentive costs:
 - ⇒ **Program Administrative Costs** -- Cost to the utility of administering identified energy efficiency program, including salaries, materials, advertising, computer support, and overhead. Does not include rebates, efficiency equipment purchases, or other financial incentives offered to customers. Administrative costs consist of direct costs and allocated costs.

Direct administrative costs are those tied directly to a project or program by invoice, timesheet, or factual analysis of recorded costs.

Allocated administrative costs are those distributed to programs based on preset formulas.

- ⇒ **Program Incentive Costs** -- Financial assistance provided by the utility administrator to an entity other than the utility administrator for the installation of an energy efficiency product or products at an identified customer premise (customer rebates, low interest loans, SPC payments).
- RRM2 does not provide any specific definitions of labor, non-labor, or contract. No definitions of MA&E and regulatory oversight or unallocated costs are provided. Additionally, costs are not provided at the program level.
- During workshops held March 8 and 9, 1999 the utilities and other interested parties identified issues they would like the Commission to address, either by providing a direct solution or by establishing a forum in which parties can resolve these issues. Among these issues were the definitions of administrative versus implementation costs and internal versus outsourced costs. The April 2, 1999 Reporting Requirements Workshop Report summarizes the discussion:

Administrative vs. Implementation Costs

CBEE points out that these costs need to be defined. Traditionally, all labor costs were reported as “administrative costs” by utility, regardless of specific duties. There are cases when the utility employee labor should be classified as “implementation”, such as energy audits performed by utility employees.

Parties agree that the costs need to be clearly defined and these definitions need to be incorporated into the Reporting Requirements Manual as soon as possible. Programs are rolling out now and utilities need to know how to track the costs properly.

Internal vs. Out-Sourced Costs

Internal and out-sourced costs need to be defined. For instance, the question arose, “is a contract employee at a utility considered ‘internal’ or ‘external’?”

- RRM2 was not revised until March 2002. No changes were made to the definitions of administrative or incentive costs.
- The Standard Practice Manual: Economic Analysis of Demand-Side Management Programs and Projects, issued in October 2001, (Standard Practice Manual) provides another definition of Administrative costs in its guidelines for inputs to program cost effectiveness analyses.
 - ⇒ According to the Standard Practice Manual, measurement and evaluation costs should be excluded from Administrative costs in determining program cost effectiveness: “Program administration cost estimates used in program cost-effectiveness analyses should exclude costs associated with the measurement and evaluation of program impacts unless the costs are a necessary component to administer the program.”
 - ⇒ The Standard Practice Manual also provides a discussion regarding what types of costs should be classified as “incentives,” and ultimately provides a definition of incentives which is similar to RRM2, that is, incentives should include only dollar benefits:

Some difference of opinion exists as to what should be called an incentive. The term can be interpreted broadly to include almost anything. Direct rebates, interest payment subsidies, and even energy audits can be called incentives. Operationally, it is necessary to restrict the term to include only dollar benefits such as rebates or rate incentives (monthly bill credits). Information and services such as audits are not considered incentives for the purposes of these tests. If the incentive is to offset a specific participant cost, as in a rebate-type incentive, the full customer cost (before the rebate) must be included.

- Although the Quarterly Reporting requirements narrow the definition of administrative costs by separating marketing, advertising and outreach and EM&V costs, the reporting requirements do not specify allowable administrative costs.

C2. There is a wide range in the level of administrative costs reported by the utilities. Differences in programs and utility cost reporting make comparisons difficult.

- **Exhibit VI-11** provides the range of administrative costs for various program areas, using both the Annual and the Quarterly reporting definitions.ⁱⁱⁱ

ⁱⁱⁱ Programs funded under Senate Bill 5, First Extraordinary Session (SBX1 5) were subject to an administrative cost cap of 15 percent, but were not included in the scope of this audit. In most cases, the utility SBX1 5 programs were extensions of existing PGC-funded programs.

Exhibit VI-11: First Year Administrative Costs Percentages Are Generally Lower When Quarterly Workbook Definitions are Used Instead of the Annual Report Definitions

Utility	Annual Reports – Program Specific [Note 1, 2] 1998-2002		Quarterly Workbooks [Note 3] Last 3 Quarters 2002	
	Range	Average	Range	Average
PG&E	58%-82%	72%	9%-88%	33%
SCE	63%-80% 50%-70% (actual all periods)	65%	6%-97%	23%
SDG&E	49%-76%	60%	8%-86%	17%
SCG	56%-78%	64%	2%-100%	39%
All Utilities	49%-82%	67%	2%-100%	28%

Note 1: Based on data reported in the annual reports. Reflects only the first year of expenditures for each program year. Range does not include Summer Initiative costs, but average does. Does not include program specific commitments.

Note 2: In addition to program specific administrative costs, includes MA&E and general administrative and overhead costs.

Note 3: Last three quarters of 2002, statewide and utility local programs.

Source: SCE, PGE, SDGE, SCG Annual Reports 1998-2002, Quarterly Workbooks June-December 2002; SCE DR 141, Document Response PGE-IDR-1.16.

- There is a wide range in the administrative costs reported by the utilities. This is due to many factors, including the types of costs each utility includes in its energy efficiency costs, and the way the utility reports its costs.
 - ⇒ Average reported “first year” administrative cost levels varied considerably by utility, ranging from 60 to 72 percent for the five year audit period, as reported in the Annual Reports. Actual costs incurred in subsequent years are not reported to the Commission.
 - ⇒ Similar differences exist in the reporting of costs in the Quarterly Workbooks.
- The level of administrative costs also varies by time, as shown in **Exhibit VI-12**. At blueCONSULTING’s request, SCE reclassified its historic program costs using the Quarterly Workbook format. **Exhibit VI-12** provides the estimated administrative cost percentages for the period 1998-2002 for each program year based on this information. Numbers presented are approximate, as prior to PY 2002, administrative costs were not tracked and reported in the same format. Before 2002, various administrative and direct implementation functions could have been used for different activities depending on tracking and reporting requirements of the programs. Moreover, in 2002 various accounting codes were established to comply with the Quarterly Reporting requirements.

Exhibit VI-12: SCE Administrative Costs Percentages Varied by Year and By Program [Note 1]

Program	PY 1998	PY 1999	PY 2000	PY 2001	PY 2002 3 Months	PY 2002
Express Efficiency			12.3%	4.4% (large) 22.8% (small)	34.8% (small) 99.9% (large)	22.2%
Savings by Design			5.7% - 8.3%	6.7% - 6.9%	12.9%	29.9%
Standard Performance Contract	3.9%	9.6% 11.6% (small)	13.3% 11.2% (small)	8.1% 5.5% (small)	21.2% 17.4%	8.5%
Energy Audits						
Energy Use Profile Audits	14.3%	6.6%	7.1%	5.0%	77.7%	
In-Home Audits	14.1%	15.9%	12.2%	9.3%	9.1%	10.2%
Online Audits			20.2%	20.8%	64.6%	14.9% [Note 2]
Appliance Recycling Program [Note 3]	1.5%	1.6%	2.5%	3.5%	5.7%	3.2%
Residential Appliance Direct Rebate	32.6%	11.2%	29.9%	15.4%	20.2%	
Mass Market Information	42.4%	53.1% (res) 66.6% (nonres)	51.9% (res) 28.3% (nonres)	28.0% (res) 28.4% (nonres)	58.5% (res) 99.3% (nonres)	43.3% education & training

Note 1: Based on Quarterly Workbook cost classifications. Includes costs through 2001. For example, small SPC PY 1999 administrative cost percent of 11.6 includes costs from 1999-2002. Does not include committed costs.

Note 2: Home Energy Efficiency Surveys, includes on-line, telephone and mail-in.

Note 3: Contractor administrative costs are included in direct costs (classified as incentives) and not reflected in the administrative cost percentages shown in the table above. See Conclusion No. C10 for additional discussion.

Source: SCE Document Response 141.

C3. As a result of differences in accounting and reporting systems, differences in what is included in the utilities' base rates, and the lack of specificity regarding allowed energy efficiency expenditures, there are significant differences in the types of costs each utility charges to the energy efficiency program.

- The types of costs charged to the energy efficiency program vary by utility. **Exhibit VI-13** lists some types of costs charged to the energy efficiency programs, and each utility's treatment of the costs. As shown in **Exhibit VI-13**, there are many types of costs that are included by some, but not all utilities.

Exhibit VI-13: The Types of Costs Charged to Energy Efficiency Programs Vary by Utility

	PG&E	SCE	SDG&E	SCG	Difference?
Labor and Labor Related					
Labor Charges					
Energy Efficiency Personnel	Y	Y	Y	Y	
Corporate Internal Audit	Y	Y	N	N	✓
Finance	Y	Y	N	N	✓
IT/Technical Support	Y	Y	Y	N	✓
HR and Training	Y	Y	N	N	✓
Engineering	Y	Y	N	N	✓
Non-Residential Customer Service	Y	Y	N	N	✓
Procurement	Y	N	Y	Y	✓
Other Organizations which support EE	Y	Y	N	N	✓
Vice President or personnel responsible for EE organization, but not directly involved in day-to-day operations.	Labor and other costs of the VP responsible for CEM is allocated to EE programs	N	N	N	✓
Labor Categories and Adders					
Labor – Straight Time and Overtime	Y	Y	Y	Y	
Labor – Nonproductive Time	Y	Y	N	Y	✓
Labor – Vacation/Paid Absence	Y	Y	Y	Y	
Payroll Taxes and Benefits	Electric labor-driven 1999 to 2002	N	Payroll Taxes, ICP, and Workers Comp, Public Liability and Property Damage, No Health Benefits, Pension Cost	N	✓
Vendor Charges					
Vendor Charges	Y	Y	Y	Y	
Other Charges					
Facilities	Y	N	N	N	✓
Rents for facilities not owned by utility	Y	Y	Y	N	✓
Desktop PCs and Laptops	Y	Y	Y	Y	
Computer Support	Y	Y	N	Y	✓
Application Development	Y	Y	N	Y	✓
Software	Y	Y	Y	Y	
Car Allowance	Y	N	N	N	✓
Vehicles	Y	Y	Y	Y	
Desktop phones and phone service	Y	Y	Y	Y	
Cell phones, pagers and service	Y	Y	Y	Y	
Training Programs	Y	Y	Y	Y	
Use of Training Facilities	Y	Y	N	Y	✓
Copying	Y	Y	Y	Y	

Exhibit VI-13: The Types of Costs Charged to Energy Efficiency Programs Vary by Utility

	PG&E	SCE	SDG&E	SCG	Difference?
Graphics Production	Y	Y	Y	Y	
Postage	Y	Y	Y	Y	
Office Supplies	Y	Y	Y	Y	
Travel Costs (Mileage, Parking, Lodging)	Y	Y	Y	Y	
Conference Costs	Y	Y	N	Y	✓
Subscriptions and Memberships	Y	Y	Y	Y	
Employee Rewards	Y	N	Y	Y	✓
Donations/Sponsorships	Y	Y	Y	Y	
Consulting	Y	Y	Y	Y	
Advertising/Marketing	Y	Y	Y	Y	
Regulatory Permits	Y	Y	Y		
Storage	Y	Y	Y		
Office Furniture	Y	N	Y		✓
Catering	Y	Y	Y	Y	
Equipment Rentals	Y	Y	Y		
Corporate Overhead					
Corporate Administrative and General Costs (Admin labor, insurance, benefits, etc.)	Electric labor-driven 1999-2002	N	N	N	✓

Source: blueCONSULTING Analysis.

- PG&E includes electric corporate overhead, payroll taxes, and benefits in its energy efficiency costs, while the other utilities do not include all of these costs. SDG&E includes payroll taxes, ICP, and workers compensation.
- ⇒ In its 1999 GRC filing, PG&E did not include electric payroll taxes and benefits costs or corporate overheads associated with energy efficiency in its determination of electric base rates, as it anticipated that administration of energy efficiency programs would be transferred from the utilities to the Independent Administrator. As a result, after 1998 these costs are charged to the energy efficiency programs. In contrast, these costs are included in base rates at SCE, SDG&E and SCG, and, as a result, are not charged to the energy efficiency programs.
- ⇒ Electric corporate overhead, payroll taxes, and benefits represent four percent of PG&E's total \$465.6 million energy efficiency costs during the audit period.
- ⇒ Payroll taxes and benefits costs and corporate overheads are included in gas base rates for all gas utilities, including PG&E, and are not charged to the energy efficiency programs.
- As discussed further in Conclusion No. C10, for certain direct install programs SCE charged vendors' installation costs to incentive costs, as well as the customer rebates. PG&E, SDG&E and SCG did not do this in general.

- As described in Chapter V, PG&E's corporate accounting system (SAP) captures all support costs for a provider cost center, and distributes these costs, along with labor charges, to the orders to which employees charge time. For this reason, PG&E's energy efficiency program costs include costs for the general operation of all organizations which charge time to PCC programs. Examples of such costs include:

- ⇒ Facilities charges
- ⇒ Internal Mail
- ⇒ Voicemail
- ⇒ Directors and Vice Presidents of support organizations
- ⇒ Rents.

C4. Within the administrative cost category, RRM2 did not specifically define the labor, non-labor, or contract cost categories. As a result, the types of costs each utility reports in each Annual Report category vary considerably.

- Exhibit VI-14** lists key reporting differences in the utilities' annual report filings.

Exhibit VI-14: Each Utility Reports Different Types of Costs in the Annual Report Administrative Cost Categories

Cost Category	PG&E	SCE	SDG&E	SCG	Difference ?
Labor	Employee labor only.	Employee labor only.	Employee labor only.	Employee labor only.	
Non-Labor	Other costs such as Rents, Office Supplies, Meals, Car Allowance, Advertising. Etc.	Vendor contracts and all other costs not included in labor, contract or allocated	All costs not classified as labor or allocated	All costs not classified as labor or allocated (✓
Contract	Contract charges (Vendors, Consultants, Temporary Agencies)	Temporary agency labor only.	Not Used	Used in 1998 and 2000. Reported Contractor Costs	✓
Allocated	Overhead Pension and Benefits Supervisory Costs Support Services Costs	Internally allocated costs (e.g., facilities, graphics, vehicles, IT.)	Regulatory Support IT Support	Used in 2002 only. Includes labor costs, employee travel temporary agency labor and consulting.	✓

Source: blueCONSULTING Analysis.

- In addition to program specific administrative costs reported in the Technical Appendix, the utilities report MA&E, regulatory reporting, and other overhead costs in the main part of the Annual Report. blueCONSULTING did not perform a comprehensive comparison of the types of costs each utility reported in these categories. We did examine SCE's

MA&E, Regulatory Oversight and Other Energy Efficiency Overhead costs and determined that its treatment of these costs varied over the course of the audit period as shown in **Exhibit VI-15**. The types of costs SCE reported in these categories include salaries and expenses, temporary labor, materials and supplies, and contractor costs associated with the following functions: energy efficiency regulatory reporting and oversight; the director of energy efficiency; internal audits of energy efficiency programs; some third party initiatives; human resources, training and workforce development costs; CSBU management and CSBU internal controls costs; finance; marketing and advertising; and MA&E studies.

**Exhibit VI-15: SCE's Reporting of MA&E, Regulatory Oversight and Other Energy Efficiency Overhead Costs Varied Over Time
(Dollars in Thousands)**

Program Year	Amount	Reporting Classification
1998	\$3,616	Additive to technical appendix Administrative Costs. Reported in main report.
1999	7,038	Additive to technical appendix Administrative Costs. Reported in main report.
2000	7,518	Additive to technical appendix Administrative Costs. Reported in main report.
2001	6,440	Not additive to technical appendix Administrative Costs. Allocated to programs in the technical appendix, and then separated out in the main report.
2002	3,457	Partially additive to technical appendix Administrative Costs. A portion is allocated to programs in the technical appendix, and then included in the reporting of MA&E, Regulatory Oversight and Other Energy Efficiency costs in the main report.
Total	\$28,069	

Source: blueCONSULTING Analysis, SCE Annual Reports for PY 1998-2002.

C5. The 2002 Quarterly Reporting Workbooks provide cost information at an implied level of detail that may not be representative of the underlying data. There are differences in the types of the costs included for some line items, as well as in how some line item costs are determined.

- The types of costs each utility included in its 2002 Quarterly Workbooks are summarized in **Exhibit VI-16**. Further discussion of each utility's quarterly reporting is provided later in this report.
- As shown by the shaded cells in **Exhibit VI-16**, none of the utilities report costs in all categories, either due to accounting system limitations or because there are no energy efficiency costs in this category. Discussions of the process used by each utility to develop quarterly workbook data are presented later in this chapter.

Exhibit VI-16: There are Differences in the Types of Costs the Utilities Report in the Quarterly Workbook Cost Categories

	PG&E	SCE	SDG&E	SCG	blueCONSULTING Comments
Administrative Cost					
Labor					
<i>What is included in Admin Labor</i>	PG&E labor specified as Admin.	SCE and Temp labor excluding certain labor classified elsewhere.	SDG&E labor. Some Labor is manually allocated to other categories.	SCG labor. Some Labor is manually allocated to other categories.	Only SCE includes Temps.
Type A - Program Planning /Design/Program Mgmt.	Allocation to Labor Type based on budget.	Based on cost elements and function code.	Based on Accounting Code.	Based on Accounting Code.	PG&E allocates based on budgeted amounts
Type B - Mgmt./Supervisor		Based on cost elements and function code.	Used once		
Type C - Clerical Support		Based on cost elements and function code.	Based on Accounting Code.	Based on Accounting Code.	
Benefits					
Pensions & Benefits -	Benefits for Admin, Implementation and Marketing labor (Gas amount backed out below).	Rates applied to Admin labor amounts. (Backed out below)	Amounts based on Cost Elements.	Amounts based on Cost Elements. (Backed out below)	PG&E, SDG&E and SCG include benefits for all labor, not just Admin.
Payroll Taxes -					
Travel Costs					
Type A - Mileage and Parking	Transportation costs for Admin, Implementation and Marketing. Employee Travel, car allowance, mileage.	Vehicle costs.	Employee Travel – transportation charges (incl. air)	Employee Travel – transportation charges (incl. air).	
Type B - Other - Meals, Lodging, Misc. Expenses	Meals	Phone, misc. expenses.	Meals, Lodging, Other.	Meals, Lodging, Other.	
Type C - Conference/Training Activities	Training	Conference and seminar costs, meals, lodging.	Used once		Types of costs differ between utilities.
Reporting/Tracking/Development – Information Services					
Reporting/Tracking/Development – Information Services:	Allocated support costs for MDSS/Tracker accounting system.	Temp agency costs. Includes information services, software, interdepartmental charges.	One I/O allocated to EE program based on expenditures.		Types of costs differ between utilities.

Exhibit VI-16: There are Differences in the Types of Costs the Utilities Report in the Quarterly Workbook Cost Categories

	PG&E	SCE	SDG&E	SCG	blueCONSULTING Comments
Materials and Handling:					
Materials and Handling	Materials and supplies, postage, dues, permits, fees.	Temp. labor, inter-department charges for graphics, cell phones, employee expenses, etc.	Materials, computer Equip., freight Tele-cellular service.	Office supplies, computer equipment, vehicles and equip rental, freight, storage stationary.	
Overhead and General and Administrative Costs					
Type A - Regulatory Support	Energy Efficiency support costs for each Cost Type custom allocated to specific programs.	Labor and expenses for Regulatory Function. Also, Director of Energy Efficiency.	One I/O allocated to EE program based on expenditures.	One I/O allocated to EE program based on expenditures.	SCE includes Supervisory costs.
Type B - Accounting Support		Mgmt/Admin Support and Internal Audits.	Estimated Amount.	Estimated Amount zeroed out below.	Types of costs differ between utilities.
Type C - Communications/ Telecommunications/Automated Systems Support		General support that is not regulatory, accounting, or human resources.			Types of costs differ between utilities.
Type D - Human Resources Support		Job Skills training.	Estimated Amount (Zeroed out below).		Types of costs differ between utilities.
Type E – Facilities Costs	Gas and electric facilities charges.		One I/O allocated to EE program based on expenditures.		Types of costs differ between utilities.
Type F – Supervision	VP and Director Costs Engineering Labor Standard Cost Variances Clearing - benefits.			Estimated Amount zeroed out below.	PG&E includes more than supervision costs.
Type G – Corporate Services	Corporate Overhead based on electric labor.		Estimated Amount (Zeroed out below).		Types of costs differ between utilities.
Type H - Transportation Services, Shop Services	Transportation and equipment interdepartmental charges.	Interdepartmental charges for vehicles.			
Type I - Information Technology	Information system support interdepartmental charges.	Information system support interdepartmental charges.	One I/O allocated to EE program based on expenditures.		
Type J - Procurement and Material Management -					

Exhibit VI-16: There are Differences in the Types of Costs the Utilities Report in the Quarterly Workbook Cost Categories

	PG&E	SCE	SDG&E	SCG	blueCONSULTING Comments
Subcontractor Administrative Costs					
Labor	Percentage of implementation subcontractor costs. Also admin consultant service and staff augmentation.	Percentage of non-residential implementation subcontractor costs.			
Benefits					
Overhead					
Travel costs					
Reporting/Tracking/Development – Information Services					
Materials & Handling					
Overhead and General and Administrative costs					
Profit					
Marketing/Advertising and Outreach Costs					
Type A - Brochures/Booklets	Marketing contract costs and other material costs.	Interdepartmental charges for graphics, etc., contract charges.	Marketing cost elements assigned to category by SDG&E.	Marketing cost elements assigned to category by SCG.	
Type B – Trade Shows and Seminars	Postage and other material costs.	Interdepartmental charges for graphics, etc., postage.			
Type C – Direct Mail		Employee expenses, advertising contractors, labor for SPC, marketing of programs.			
Type D – Outreach	Labor – Account Reps				Types of costs differ between utilities.

Exhibit VI-16: There are Differences in the Types of Costs the Utilities Report in the Quarterly Workbook Cost Categories

	PG&E	SCE	SDG&E	SCG	blueCONSULTING Comments
Direct Implementation Costs					
Financial Incentives	Financial Incentives.	Financial Incentives.	Most costs are incentives. Some costs are manually allocated to other categories.	Most costs are incentives. Some costs are manually allocated to other categories.	
Installation Costs		Contractor costs for Non-Residential programs (less administrative percentage).			
Itemized hardware/materials costs	e.g., Tools at Pacific Energy Center.				
Activity Costs	e.g., Costs for PEC and Energenius.	Contractor costs for energy survey translation, website design.			
Rebate Processing/Inspection	Contractor Costs (less administrative percentage). Incentive processing and inspection labor.	Temp agency, SCE labor for rebate processing and inspections.			
Evaluation, Measurement and Verification Costs					
Labor					
EM&V labor	Same as "Admin" above, for orders classified as EM&V (only reported for 3 programs – Energenius, PEC, and School Resources).				
Pensions & Benefits					
Payroll Taxes					
Travel Costs					
Type A - Mileage and Parking	Same as "Admin" above, for orders classified as EM&V (only reported for 3 programs – Energenius, PEC, and School Resources).				
Type B - Other - Meals, Lodging, Misc. Expenses					
Type C - Conference/Training Activities					

Exhibit VI-16: There are Differences in the Types of Costs the Utilities Report in the Quarterly Workbook Cost Categories

	PG&E	SCE	SDG&E	SCG	blueCONSULTING Comments
Reporting/Tracking/Development – Information Services					
Report 1, etc.	Contract costs.	SCE labor, consultants, other costs.			Types of costs differ between utilities
Materials and Handling					
Materials and Handling	See comment in EM&V Labor.				
Overhead and General and Administrative Costs					
Type A - Regulatory Support	Same as "Admin" above, for orders classified as EM&V (only reported for 3 programs – Energenius, PEC, and School Resources).				
Type B - Accounting Support					
Type C - Communications/ Telecommunications/Automated Systems Support					
Type D - Human Resources Support					
Type E – Facilities Costs	See comment in EM&V Labor.				
Type F – Supervision					
Type G – Corporate Services					
Type H - Transportation Services, Shop Services					
Type I - Information Technology					
Type J - Procurement and Material Management -					

Exhibit VI-16: There are Differences in the Types of Costs the Utilities Report in the Quarterly Workbook Cost Categories

	PG&E	SCE	SDG&E	SCG	blueCONSULTING Comments
Other Costs					
Financing Costs					
Bonding Costs					
Less Costs Not Charged to this Program (e.g., benefits recovered by alternate means, as noted above)	Back out gas benefit costs.	Back out benefit costs.	SDG&E backs out some overheads and G&A costs, specifically Type B, Type D and Type G.	Back out benefit costs.	

Shaded cost categories are not used by the utilities.

Source: blueCONSULTING analysis of Information in Exhibit VI-27, Exhibit VI-19, Exhibit VI-30, and Exhibit VI-33 of this Report.

- ⇒ Neither SDG&E nor SCG reported EM&V costs. SDG&E and SCG report EM&V costs only as incurred. There were no EM&V costs in the audit period. SCE only reports the EM&V costs associated with reporting and tracking. PG&E reports costs in most categories, but only for information/education programs.
- ⇒ SCG does not segregate Overhead and General and Administrative costs; SDG&E and SCE reports costs in some, but not all of the cost types. None of the utilities report procurement and material management costs.
- ⇒ SCG and SDG&E do not report subcontractor administrative costs separately, but report these costs under the appropriate cost categories. SCE and PG&E both estimate subcontractor administrative costs as a percentage of direct implementation charges.
- Some of the costs reported are based on assumptions or allocations, rather than data directly from the utilities' accounting systems. Reported costs based on estimates or assumptions include:
 - ⇒ PG&E's Quarterly Workbooks include assumptions regarding the allocation of administrative labor to various labor types, and the percentage of implementation subcontractor costs which are administrative.
 - ⇒ SCE also estimates the portion of direct implementation subcontractor cost which are administrative.
 - ⇒ SDG&E and SCG estimate certain Overhead and General and Administrative costs which are later zeroed out as "Costs Not Charged to this Program."

PG&E

C6. The actual costs included in the PG&E's Energy Efficiency Programs Annual Report generally reflect the accounting data. While there are some differences between the annual report and accounting totals each year, these differences are largely due to timing issues.

- A reconciliation between the actual costs reported in PG&E's annual reports and the accounting data from MDSS/Tracker for each program year is shown in **Exhibit VI-17**. Principal reasons for the differences include:
 - ⇒ In 1999 and 2000 PG&E included certain MA&E expenditures in the Annual Report that were not recorded in its accounting records for the Program Year and Calendar Year.
 - ⇒ The 2001 and 2002 annual reports include costs for the 2000 Summer Initiatives, while these costs are recorded as PY 2000 costs in PG&E's accounting system.

Exhibit VI-17: PG&E's Annual Report Costs Can Be Reconciled with Its Accounting Data

Cost Category	PY 1998			PY 1999			PY 2000			PY 2001			PY 2002		
	Incent.	Admin	Total	Incent.	Admin	Total	Incent.	Admin	Total	Incent.	Admin	Total	Incent.	Admin	Total
Actual Costs Reported in Annual Report															
Residential	\$2,646	9,554	12,200	7,788	20,829	28,617	5,078	35,094	40,172	25,166	21,838	47,004			
Non-Residential	4,543	13,487	18,030	4,548	18,050	22,598	9,520	19,915	29,435	17,465	20,902	38,367	4,286	9,563	13,849
New Construction	194	2,875	3,069	762	7,467	8,229	533	10,237	10,770	524	11,594	12,118	227	5,978	6,205
Cross-Cutting													2,851	6,504	9,355
Summer Initiative							50	611	661	7,502	18,515	26,017	5,311	4,379	9,690
Statewide Marketing													-	2,815	2,815
Non-IOU Programs													-	11,770	11,770
Utility Admin of Non-IOU Programs													-	93	93
MA&E & Reg. Oversight	-	1,104	1,104	-	3,809	3,809	-	3,191	3,191	-	1,639	1,639			
CBEE	-	312	312		237	237							7,819	8,678	16,497
Total	7,383	27,332	34,715	13,098	50,392	63,490	15,181	69,048	84,229	50,657	74,488	125,145	20,494	49,885	70,379
Reconciliation with Accounting Data															
CBEE		(312)	(312)		(237)	(237)									
Revised Residential, Non-Residential, New Construction expenditures (Includes Admin and Incentives)	-	6,467	6,467												
MA&E expenditures (Not included in Accounting Records)				-	(1,885)	(1,885)		(2,421)	(2,421)						
PY98 Express Efficiency applications received in Jan-Mar of 1999				(296)	(279)	(576)									
Increase in the regulatory reporting costs allocated to orders					(173)	(173)									
Increased admin overhead due to expenditure shift from electric to gas							-	(542)	(542)						
Summer Initiative (PY 2000 Program)										(7,502)	(18,515)	(26,017)	(5,311)	(4,379)	(9,690)
Non-Res TPI contract moved to Summer Initiative										-	912	912			
Express Efficiency Incentive Adjustment										8	-	8			
ARCA payment to SCE (Paid in 2003)													(1,566)	(301)	(1,867)
Fisher-Nickel Memorandum Account [Note 1]													-	25	25
FSTC Memorandum Account [Note 1]													-	17	17
Adjusted Total	\$7,383	33,487	40,870	12,802	47,818	60,619	15,181	66,085	81,266	43,163	56,885	100,049	13,617	45,247	58,864
Unexplained			(203)	8		8			14			0			(0)
Accounting Total			40,667			60,627			81,280			100,049			58,864

Note 1: Fisher Nickel (FN) is a consulting firm industry involved with the Food Services Technology Center. When FN was part of PG&E, expenses were charged to the FN memorandum account. When FN split from PG&E, PG&E continued to pay expenses, but was reimbursed by FN. This was tracked in the FSTC memorandum account.

Source: Reconciliation between Annual Reports and MDSS/Tracker Amounts (Document Response PGE-EAL-10)

C7. PG&E assigns costs to cost categories in the Annual Reports based on the classification of costs in its SAP and MDSS/Tracker accounting systems. The costs in PG&E's Annual Reports generally reflect the definitions put forth by the Commission, although there are some minor classification discrepancies due to the structure of PG&E's accounting information.

- PG&E established a complex system of over 1500 program orders and assigned cost categories for over 200 cost elements to facilitate its regulatory reporting of energy efficient program costs.
- As described in Chapter V, PG&E has eight categories of energy efficiency costs. It uses these cost categories as the basis for the costs presented in the Technical Appendix of its Annual Reports. **Exhibit VI-18** (page following) provides an overview of the types of costs PG&E includes in each annual report category.
- The administrative cost category "Allocated" contains some charges that are not truly allocated charges. As shown in Exhibit VI-18, PG&E includes its "Allocated" costs in this category. As described in Chapter V, "Allocated" contains costs for PG&E's internal chargeback organizations. These costs include some costs that are directly related to a specific program, (e.g., printing costs) that are charged through the clearing process. They also include some costs, such as facilities charges, which are truly allocated costs. As described in Chapter V, there is no double counting between the costs in the clearing accounts and other energy efficiency program costs.

C8. PG&E created new cost classifications in its cost accounting and tracking system in order to provide costs in the 2002 Quarterly Workbook categories. The cost classifications in the Quarterly Workbooks generally reflect the definitions put forth by the Commission, although there are some classification discrepancies due to the structure of PG&E's accounting information.

- In order to provide costs in the 2002 reporting categories, PG&E classified each of its 208 PY 2002 work orders as Administrative, Implementation, EM&V, or Marketing. PG&E downloads the cost element and work order level cost data from the MDSS/Tracker system, and prepares the quarterly report using a manual spreadsheet process. PG&E groups specific cost elements into the detailed cost categories specified by the Energy Division, making assumptions for certain line items for which detailed cost data is not available.
 - ⇒ Administrative Labor amounts are allocated to Type A - Program Planning /Design/Program Mgmt, Type B - Mgmt./Supervisor, or Type C - Clerical Support based on budget amounts.
 - ⇒ Based on historical data, 17 percent of implementation subcontractor costs are assumed to be administrative.

Exhibit VI-18: PG&E's Accounting Cost Categories Serve as the Basis for its Classification of Costs in the Annual Report

Annual Report Category	PG&E Cost Category	Description of PG&E Cost Category	blueCONSULTING Comments
Admin - Labor (Direct)	Labor	Labor hours charged directly to programs.	
Admin - Non-Labor (Direct)	Other		
Admin - Contract (Direct)	Contract	Vendor charges	
Admin - Allocated	Electric Burden	Benefits and payroll taxes associated with electric labor	PG&E includes these costs in the period 1999 to 2002 as these costs were not included in the 1999 GRC.
	Electric Corporate Overhead	Corporate overhead rate applied to electric labor	
	Allocated	Clearing costs which include costs for office services, facilities, and IT support, support labor and benefits, as well as the "cascading costs" of the VP and Director-level organizations.	Some of these charges (e.g., copying costs) may be related directly to orders, but are included as clearing by PG&E's accounting system. PG&E classifies clearing costs as allocated.
	Custom Allocated	Costs associated with the support of several EE programs. For example, Marketing Processing Center Management	Costs are allocated to specific programs using various methodologies. Costs include labor, materials, and contract costs.
Incentives	Incentives	Incentives	Includes rebates, vendor bonuses, and some administrative processing charges of rebates (1998 and 1999).
Shareholder Incentive	Not an accounting account		Earned Shareholder incentives based on achievement of milestones.
Other	Not Used		Not Used

Source: blueCONSULTING analysis. Interview PGE-EAL-001.

- An overview of costs reported in PG&E's 2002 Quarterly Workbooks is shown in **Exhibit VI-19** (page following).
- The cost category "Subcontractor Administrative Costs: Labor" includes costs for consultant services and staff augmentation costs in orders classified as "Administrative" by PG&E. These costs should be included as "Administrative Costs: Labor." According to the reporting cost definitions, this category includes temporary agency costs.

**Exhibit VI-19: Costs in PG&E 2002 Quarterly Workbooks are Classified
Using Accounting Codes**

Cost Category	Description
Administrative Cost	
Labor	
Type A - Program Planning /Design/Program Mgmt.	Starting in 2002, PG&E tracks admin labor in specific orders. Allocation to Type A, B and C is based on budgeted amounts.
Type B - Mgmt./Supervisor	
Type C - Clerical Support	
Benefits	
Pensions & Benefits -	Includes benefit amounts for Admin, Implementation and Marketing Labor. Includes amounts associated with gas labor. Gas amount is subtracted in the 'Other" cost section below.
Payroll Taxes -	
Travel Costs	
Type A - Mileage and Parking	Includes travel costs for Admin, Implementation and Marketing.
Type B - Other - Meals, Lodging, Misc. Expenses	
Type C - Conference/Training Activities	
Reporting/Tracking/Development – Information Services:	
Reporting/Tracking/Development – Information Services:	Custom allocated amounts which pertain to accounting system support (MDSS/Tracker).
Materials and Handling:	
Materials and Handling	Includes materials and supplies, postage, dues, permits, fees.
Overhead and General and Administrative Costs	
Type A - Regulatory Support	Costs from PG&E's "custom allocated" cost category. Energy efficiency related costs which are not program specific.
Type B - Accounting Support	
Type C - Communications/ Telecommunications/Automated Systems Support	
Type D - Human Resources Support	Not used.
Type E – Facilities Costs	Gas and Electric Facilities charges.
Type F – Supervision	Supervision (VP and Director Level) and Engineering labor, payroll taxes and benefits (Clearing accounts). Also includes PCC variance costs.
Type G – Corporate Services	Corporate overhead based on electric labor amounts.
Type H - Transportation Services, Shop Services	Transportation and Equipment Services (Clearing accounts).
Type I - Information Technology	Information systems support (Clearing accounts).
Type J - Procurement and Material Management -	Not used. Materials clearing costs are included in Materials and Handling above.
Subcontractor Administrative Costs	
Labor	Based on historical data, PG&E estimates 17% of implementation subcontractor costs are administrative. The remaining 83% subcontractor costs are reported as direct implementation below. Also includes consultant services and staff augmentation costs in orders classified as "Administrative" by PG&E.
Benefits	Not used.
Overhead	
Travel costs	

**Exhibit VI-19: Costs in PG&E 2002 Quarterly Workbooks are Classified
Using Accounting Codes**

Cost Category	Description
Reporting/Tracking/ Development – Information Services	Not Used.
Materials & Handling	
Overhead and General and Administrative costs	
Profit	
Marketing/Advertising and Outreach Costs	
Type A - Brochures/Booklets	Contract costs that are classified Marketing and other material costs.
Type B – Trade Shows and Seminars	PG&E appears to have replaced Type B- Media Support with Type B – Trade Show and Seminars and Type C – Direct Mail.
Type C – Direct Mail	
Type D – Outreach	Labor – Account Reps.
Direct Implementation Costs	
Financial Incentives	Rebates.
Installation Costs	Not used.
Itemized hardware/materials costs	For the Tools for the Pacific Energy Center tool lending library, food contractor, exhibits.
Activity Costs	For the Pacific Energy Center – Includes curriculum development and class presentations For Energenius – Includes customer research, technical support.
Rebate Processing/Inspection	Contractor Costs – Incentive Implementation & Processing, Project Technical Review Labor - Incentive Processing and Inspections.
Evaluation, Measurement and Evaluation Costs	
Labor	
EM&V labor	Labor costs classified as EM&V by PG&E.
Pensions & Benefits	Burden for orders classified as EM&V by PG&E.
Payroll Taxes	Payroll taxes for orders classified as EM&V by PG&E.
Travel Costs	
Type A - Mileage and Parking	Travel costs for orders classified as EM&V by PG&E.
Type B - Other - Meals, Lodging, Misc. Expenses	
Type C - Conference/Training Activities	
Reporting/Tracking/Development – Information Services	
Report 1	Contract costs for orders classified as EM&V by PG&E.
Materials and Handling	
Materials and Handling	Materials and Other for orders classified as EM&V by PG&E.

Exhibit VI-19: Costs in PG&E 2002 Quarterly Workbooks are Classified Using Accounting Codes

Cost Category	Description
Overhead and General and Administrative Costs:	
Type A - Regulatory Support	Costs from PG&E's "custom allocated" cost category. Energy efficiency related costs which are not program specific which were allocated to orders classified as EM&V by PG&E
Type B - Accounting Support	
Type C - Communications/Telecommunications/Automated Systems Support	
Type D - Human Resources Support	Not used
Type E – Facilities Costs	Gas and Electric Facilities charges for orders classified as EM&V by PG&E
Type F – Supervision	Supervision (VP and Director Level) and Engineering labor, payroll taxes and benefits (Clearing accounts) for orders classified as EM&V by PG&E. Also includes PCC variance costs
Type G – Corporate Services	Corporate overhead based on electric labor amounts for orders classified as EM&V by PG&E.
Type H - Transportation Services, Shop Services	Transportation and Equipment Services (Clearing accounts) for orders classified as EM&V by PG&E.
Type I - Information Technology	Information systems support (Clearing accounts) for orders classified as EM&V by PG&E.
Type J - Procurement and Material Management -	Not used
Other Costs	
Financing Costs	
Bonding Costs	
Less Costs Not Charged to this Program (e.g., benefits recovered by alternate means, as noted above)	Benefits and Payroll taxes associated with gas labor.

Source: Electronic Versions of the Quarterly Report Pivot Tables (Document Response PGE-EAL-019); blueCONSULTING Analysis.

- The cost category “Overhead and General and Administrative Costs: Type F- Supervision” includes costs in addition to the “allocated cascading supervision costs received for Director and VP of organizations administering and implementing energy efficiency programs.” Other costs that PG&E includes in this category include:
 - ⇒ Provided Cost Center (PCC) variance costs^{iv}
 - ⇒ Clearing account costs for engineering labor, payroll taxes, and benefits.
- PG&E tracked most of its EM&V costs separately and did not include them in the quarterly reports for its programs. In its Quarterly reports, PG&E only reported EM&V costs for three programs which have minimal EM&V costs:
 - ⇒ Energenius - a school-based education program on energy efficiency and gas and electric safety for public and private schools within PG&E’s service area.

^{iv} As explained in Chapter V, PCC variances are the difference between actual PCC costs and the actual costs actually distributed to the orders using the standard rates.

- ⇒ Pacific Energy Center - an information and education program funded from the local crosscutting category.
- ⇒ School Resources – a program which provides a variety of services to help K-12 schools save energy and money.

C9. PG&E’s administrative cost levels vary considerably by program, ranging from 5 to 58 percent for program year 2002. As a result, caution must be exercised in making comparison or establishing caps.

- **Exhibit VI-20** shows PG&E’s administrative costs by program as reported in PG&E’s Quarterly Reports.

**Exhibit VI-20: PY 2002 Cost Breakdown of PG&E Programs - Actual and Committed Costs
Sorted in Order of Programs with the Highest Direct Implementation Costs**

Program	Type	Admin	M/A/O	DI	E/M/V
Statewide Programs					
Res Appliance Recycling [Note 1]	Rebate/Incentive	0%	0%	100%	0%
Upstream Res Lighting	Info	5%	0%	95%	0%
SPC	Rebate/Incentive	8%	1%	90%	0%
Energy Efficiency Surveys	Info	16%	1%	84%	0%
SF Energy Star New Homes	Rebate/Incentive	14%	7%	79%	0%
Building Operator Certification	Info	24%	0%	76%	0%
Savings by Design	Rebate/Incentive	20%	6%	75%	0%
Single Family EE Rebates	Rebate/Incentive	20%	5%	75%	0%
Education and Training	Info	26%	0%	74%	0%
Emerging Technologies	Info	28%	0%	72%	0%
Express Efficiency	Rebate/Incentive	22%	10%	68%	0%
Multifamily Retrofit EE Rebates	Rebate/Incentive	32%	0%	68%	0%
Codes and Standards	Info	35%	0%	65%	0%
Nonresidential Energy Audits	Info	41%	3%	56%	0%
MF Energy Star New Homes	Rebate/Incentive	24%	22%	54%	0%
Local Programs					
School Resources	Info	42%	1%	52%	4%
Pacific Energy Center	Info	58%	1%	38%	2%
Energenius	Info	32%	56%	9%	3%

Data Not Verified by PG&E

Note 1: The Residential Appliance Recycling program is administered by SCE.

Source: PG&E 2002 Quarterly Reports (Document Response PGE-IDR-1.16); blueCONSULTING analysis.

SCE

C10. SCE classifies vendor payments for administrative and installation activities as incentive costs for selected programs (Appliance Recycling, Savings by Design and Hard-to-Reach) in its Annual Reports to the Commission. This overstates the Incentive payments reported in the Annual Reports. These costs are properly included as direct implementation costs in the 2002 Quarterly Workbooks.

- RRM2, used for Annual Reporting, defines Program Incentive Costs as “financial assistance provided by the utility administrator to an entity other than the utility administrator for the installation of an energy efficiency product or products at an identified customer premise (customer rebates, low interest loans, SPC payments).” All other costs are classified as administrative. In comparison, in the Quarterly Workbooks, utilities report Direct Implementation costs, which include financial incentives and installation costs.
- SCE classified the installation costs associated with its Appliance Recycling, Hard-to-Reach, Hard-Wired Lighting Fixtures and a portion of Savings by Design programs as incentive costs in the annual reports. This treatment is inconsistent with SCE’s reporting of other programs.

⇒ During the period 1998-2002, ARCA invoiced SCE separately for incentive payments to the customers and for ARCA’s costs to administer the program and recycle the appliances; however, all ARCA costs were classified as incentives. According to SCE, although customers were offered a cash or alternate incentive in addition to the recycling of the appliance, the primary incentive is the removal and disposal of inefficient working appliances. Further, according to SCE, it has consistently reported these costs as incentive costs to the Commission. Historically, the non-incentive payments to ARCA have been three times the incentive payments.

⇒ **Exhibit VI-21** provides a comparison of customer rebate and processing costs.

Exhibit VI-21: Confidential Exhibit - Redacted

⇒ SCE classified the cost of SCE-retained consultants performing SBD refrigeration design assistance as incentives. According to SCE, these services are rendered by the consultants to the customer or customer’s design team as part of the total package of incentives offered through the program, thus they are considered incentive costs.

⇒ The 2002 Small Business Hard-to-Reach program classified the contractor cost of performing lighting retrofits in customer facilities as incentives. In this program, SCE pays lighting contractors the full cost of performing the retrofits in lieu of paying incentives to customers to make retrofits. Amounts paid to these contractors totaled \$697,886 in 2002.

⇒ In 1998, Richard Heath & Associates administered SCE’s Hard-Wired Lighting Fixtures program, including the management of subcontractors. SCE classified payments to Richard Heath & Associates as incentives.

C11. SCE categorizes the costs in the Annual Reports based on their accounting classification. As a result, classification may differ from that used by the other utilities.

- SCE classifies actual costs using a combination of cost element codes (used to identify the type of cost), function codes (used to distinguish incentive and administrative costs), and prime/sub codes (used to identify programs). Committed costs are identified using program-specific tracking databases.

⇒ Administrative costs are categorized by cost element as follows:

Exhibit VI-22: SCE Categorizes Administrative Cost by Cost Element

SCE Cost Element (Non-Incentive Only)	Annual Report Administrative Cost Category
C (contract) – temporary labor costs	Contract
L (labor)	Labor
I (internal allocations)	Allocated
O (Other) – includes vendor/ contractor costs, expenses, etc.	Non-Labor
M (materials)	Non-Labor

Source: blueCONSULTING analysis; SCE 1998-2002 Annual Reports; Data Responses 56-61; Transaction Detail Database (SCE Document Response 77).

- SCE classifies costs included in cost element C, temporary agency labor costs, as “contract” costs. All other vendor costs (labor and non-labor) are classified as non-labor. As a result, non-labor costs constitute the largest portion of SCE’s reported administrative costs, as shown in **Exhibit VI-23**.

⇒ Unlike some of the other utilities, SCE classifies the majority of its vendor costs as non-labor as opposed to contract, as these costs are not reported separately in its accounting system.

**Exhibit VI-23: Non-Labor Costs are the Largest Portion
of SCE's Reported Administrative Costs**

Subcategory	1998-2002 Program Specific Administrative Costs [Notes 1, 2]	
	Dollars	Percent
Labor	\$40,642,367	32%
Non-Labor	76,316,324	60%
Contract	5,124,522	4%
Allocated	5,603,953	4%
Total Reported Program Specific Administrative Costs	\$127,687,166	100%

Note 1: In addition to the program-specific administrative costs, SCE also reports MA&E, Oversight and Other Energy Efficiency costs which are not included here.

Note 2: In 1998, committed administrative costs were not provided in sufficient detail to allow them to be separated from the reported labor, non-labor, contract and allocated actual amounts. The committed costs for 1998 are included in the labor, non-labor, contract and allocated amounts.

Source: blueCONSULTING analysis; SCE Annual Reports.

- **Exhibit VI-24** (page following) provides a description of the costs SCE included in each reporting category.
 - ⇒ SCE assigns its incentive payments one of two function codes (4232 and 4231) which are used to segregate incentive costs from administrative costs for Annual Reporting purposes.
 - ⇒ MA&E and Regulatory Oversight and Other Energy Efficiency costs are identified by prime/subs. In general, SCE uses prime/subs to designate programs.
 - ⇒ Cost element codes are used to assign administrative costs to the Commission's reporting categories: labor (cost element L); non-labor (cost elements O and M); contract (cost element C); and allocated (cost element I).
 - ⇒ Shareholder incentives and commitments represent projected payments and are not part of the accounting system.

Exhibit VI-24: SCE Annual Report Costs are Classified Using Accounting Codes

Cost Category	Types of Costs Included
General	
MA&E and Regulatory Oversight	<p>Identified by accounting prime/sub code</p> <ul style="list-style-type: none"> Market Assessment & Evaluation (MA&E) is the set of activities needed: (1) to provide market and product assessment studies and analyses useful to energy efficiency program planners and policy makers; and (2) to evaluate the performance of energy efficiency programs. Regulatory Oversight category is designed to capture activities that are undertaken to meet regulatory reporting oversight and other obligations that are not included in Measurement or Forecasting and Planning.
Other Energy Efficiency	<ul style="list-style-type: none"> Management Support
Program Specific	
Program Incentives (Actual and Committed)	<p>Identified by accounting function code for selected prime/subs:</p> <ul style="list-style-type: none"> Rebates paid to customers Vendor costs associated with certain direct install programs. See Conclusion No. C10 for additional discussion.
Administrative (Actual and Committed)	Identified by accounting function code for selected prime/subs.
Labor (direct)	<p>Identified by accounting cost element code (L):</p> <ul style="list-style-type: none"> SCE labor charges only.
Non-Labor (direct)	<p>Identified by accounting cost element code (M & O):</p> <ul style="list-style-type: none"> Vendor costs (excluding temporary agency labor). Materials and other miscellaneous costs. These costs include items such as booklets, brochures, promotions, training, membership dues, postage, telephone, supplies, printing/photocopying services, and computer support services.
Contract (direct)	<p>Identified by accounting cost element code (C):</p> <ul style="list-style-type: none"> Temporary agency labor only.
Allocated	<p>Identified by accounting cost element code (I):</p> <ul style="list-style-type: none"> Not used in 1998 1999-2002 costs consist of internally allocated costs.
Shareholder Incentives	Calculation of performance awards associated with program year performance. Represents future earnings. None were authorized for 2002.
Other	<p>Identified by accounting prime/sub code.</p> <ul style="list-style-type: none"> Not used in 1998, 1999 or 2000. In 2001, costs represented in the Other Costs column represent an allocated amount of the following costs: General Support, MA&E, Regulatory Support, Commission Staff, and Summer Initiative Administrative recorded during 2001 from all of the 2001 energy efficiency programs. In 2002, costs represented in the Other Costs column represent the MA&E costs for the statewide programs. MA&E costs for the Local programs are included in the Program Administrative Costs column. Other allocated costs recorded in the Other Costs category in previous Energy Efficiency Annual Reports (e.g., General Support, Regulatory Support, Commission Staff, and Summer Initiative Administrative) are now recorded in the Program Administrative Costs column

Source: SCE Annual Reports.

C12. blueCONSULTING's analysis identified some inconsistencies and errors in SCE's Annual Reporting of program costs.

- The expenditures reported in the Annual Reports differ from those recorded in SCE's accounting system. This results in a slight overstatement of total expenditures, but greater deviations in the costs reported by category (incentives, labor, non-labor, contract

and other administrative costs. **Exhibit VI-25** provides a comparison of total recorded and reported costs.

**Exhibit VI-25: From 1998-2002, There was a 6% Difference Between
SCE's Actual and Reported Costs
(Dollars in Thousands)**

Program Year	Annual Report Actual Costs	Accounting Data	Difference	Percent
1998	\$ 35,571	\$ 35,563	\$ (8)	0.0%
1999	43,563	36,502	(7,061)	-19.3%
2000	47,568	44,219	(3,349)	-7.6%
2001	56,455	57,322	867	1.5%
2002	44,002	49,937	5,935	11.9%
SI	32,810	22,373	(10,438)	-46.7%
Total	\$ 259,971	\$ 245,916	\$ (14,054)	-5.7%

Note 1: Does not include commitments.

Source: blueCONSULTING analysis; SCE 1998-2002 Annual Reports; Transaction detail database (SCE Document Response 77).

- **Exhibit VI-26** (provides a more detailed comparison of actual and reported costs.
- In its May 2002 Annual Report, SCE provided reports of prior program year activity (PY 1998, 1999 and 2000) through the end of 2001. Although we were unable to reconcile the accounting data to the costs reported in the original annual reports, it is possible to reconcile the accounting data to the updated information provided in the May 2002 Annual report.

C13. SCE's costs are directly assigned to the Quarterly Reporting Workbook cost categories using accounting codes.

- SCE's costs are directly assigned to the Quarterly Reporting Workbook cost categories using accounting codes, with two exceptions:
 - ⇒ The majority of the overhead and administrative and general costs are tracked for the portfolio of programs as a whole, and allocated back to the programs in the Quarterly Workbooks, based on each program's proportion of the total authorized budget.
 - ⇒ For the nonresidential programs (primarily SBD and SPC), SCE charges ten percent of function 4209: Consultants, contractor costs to Administrative and 90 percent to Direct Implementation. Contractors charging to 4209 are generally implementation contractors performing field verification work. The allocation percentage was developed by SCE management based on the nature of the activities performed by the contractors.

Exhibit VI-26: Detailed Comparison of SCE's Annual Report Costs and Accounting Data – Annual Reporting Data Includes Committed Costs [Note 1]
(Dollars in Thousands)

Cost Category	1998			1999			2000			2001			2002		
	Incent.	Admin.	Total	Incent.	Admin.	Total	Incent.	Admin.	Total	Incent.	Admin.	Total	Incent.	Admin.	Total
Actual Costs Reported in Annual Report															
Residential	\$8,374	\$4,451	\$12,825	\$9,054	\$11,783	\$20,837	\$8,108	\$12,733	\$20,841	\$14,707	\$9,360	\$24,067	\$8,722	\$4,225	\$12,947
Non-Residential	3,255	12,580	15,835	1,353	8,359	9,712	1,139	11,455	12,594	6,797	12,592	19,389	4,687	7,421	12,108
New Construction	539	2,756	3,295	600	5,377	5,977	366	6,249	6,615	1,882	4,677	6,559	931	3,319	4,250
Cross-Cutting													841	5,623	6,464
Summer Initiative [Note 2]									15,914			16,296			600
Statewide Marketing														4,659	4,659
Non-IOU Programs															9,125
Utility Admin of Non-IOU Programs														117	117
MA&E & Reg. Oversight [Note 2]		1,339	1,339		4,904	4,904		5,632	5,632		4,536	4,536		3,457	3,457
Other Energy Efficiency [Note 2]		2,277	2,277		2,134	2,134		1,885	1,885		1,905	1,905			
Annual Report Total	\$12,168	\$23,403	\$35,571	\$11,006	\$32,557	\$43,563	\$9,614	\$37,995	\$63,483	\$23,386	\$33,069	\$72,752	\$15,181	\$28,821	\$53,727
Accounting Data															
Non-Summer Initiative	\$7,447	\$28,116	\$35,563	\$10,304	\$26,198	\$36,502	\$9,572	\$34,648	\$44,219	\$25,277	32,045	57,322	\$15,129	\$34,808	49,937
Summer Initiative							1,626	1,756	3,382	9,933	3,527	13,460	4,006	1,525	5,531
Accounting Total	\$7,447	\$28,116	\$35,563	\$10,304	\$26,198	\$36,502	\$11,198	\$36,404	\$47,601	\$35,210	\$35,572	\$70,782	\$19,135	\$36,333	\$55,468
Difference	\$4,721	(\$4,713)	\$8	\$702	\$6,359	\$7,061	(\$1,584)	\$1,551	\$15,882	(\$11,824)	(\$2,503)	\$1,970	(\$3,954)	(\$7,512)	(\$1,741)

Note 1: Exhibit has not been verified by SCE.

Note 2: Includes committed amounts.

Source: SCE Annual Reports; blueCONSULTING Queries based on Transaction Detail Database (Data Response 77).

- As shown in **Exhibit VI-27**, SCE does not report costs for a number of categories. **Exhibit VI-27** provides a description of the type of costs assigned to each Quarterly Report category, and examples based on our transaction testing. Total program year 2002 costs are also provided, to provide a rough estimate of the proportion of costs reported in each category. All PY 2002 costs incurred in 2002 associated with the specified accounting codes are presented in the Exhibit, including costs for non-utility local programs. When SCE reports costs to the Commission, it reports costs by program for utility local programs and statewide programs only.

Exhibit VI-27: SCE Quarterly Report Workbook Cost are Classified Using Accounting Codes

Cost Category	All PY 2002 Costs	Percent	Discussion
Administrative Costs			
Labor (Type A, B and C)	Temporary employee and SCE labor tracked by type using cost elements and function codes. Excludes Measurement and Evaluation Labor, the Processing Services Group, and the Energy Efficiency Phone Center		
Type A - Program Planning/Design/Program Mgmt.	\$2,910	6%	Planning and Analysis personnel, includes energy efficiency finance personnel, program manager time.
Type B - Mgmt./Supervisor	2,099	4%	Management and Supervisory personnel, includes managers, manager of residential and non-residential.
Type C - Clerical Support	531	1%	Administrative support personnel.
Benefits	Calculated but reversed in Other – No net charge to programs		
Pensions & Benefits			48.6% of Cost Element "L" – Administrative Cost Labor Types A, B, and C above (Reversed in "Other Costs" Below)
Payroll Taxes			7.4% of Cost Element "L" – Administrative Cost Labor Types A, B, and C above (Reversed in "Other Costs" Below)
Travel/Conference/Training			
Type A - Mileage and Parking	208	0%	Vehicle Costs – employee expenses. Does not include inter-departmental vehicle charges.
Type B - Other - Meals, lodging, misc. expenses	104	0%	Phone, miscellaneous expenses for employees reported above, offsite meetings.
Type C - Conference/Training Activities	111	0%	Conference and seminar costs, meals, lodging.
Reporting/Tracking/ Development - Information Services	491	1%	Includes temporary agency costs. Information services, software, including inter-department charges.
Materials & Handling [Note 1]	5,329	11%	Includes temporary labor, inter-departmental charges for graphics production, cell phones, online ordering, desktops, labor adders (paid absence, earnings adjustments), office supplies, employee expenses, dues, memberships. Specific examples of costs based on our sample testing include: NAESCO dues, countertops and carpet at CTAC, catering at CTAC and AgTAC, hotel expenses for vendor workshops, training classes, new construction program implementation costs, Flex Your Power and UTEEM statewide marketing costs, database/ registry development for Energy Star New Homes program.
Overhead and General and Administrative costs	Programs receive an allocated portion of the following costs.		
Type A - Regulatory Support	440	1%	Regulatory Support- Labor and expenses associated with regulatory function. Include the Director of Energy Efficiency.
Type B - Accounting Support	532	1%	Mgmt/Admin Support & Internal Audits - Includes temporary and SCE labor, CSBU Finance and Internal Audit.

Exhibit VI-27: SCE Quarterly Report Workbook Cost are Classified Using Accounting Codes

Cost Category	All PY 2002 Costs	Percent	Discussion
Type C - Communications/Telecommunications/Automated Systems Support	839	2%	All other General Support Prime/Subs not included in Regulatory, Accounting or Human Resources Support - Includes temporary and SCE labor.
Type D - Human Resources Support	230	0%	Job skills training
Type E - Facilities Support			
Type G - Corporate Services			
Type H - Transportation Services, Shop Services	179	0%	Inter-departmental charges for vehicles
Type I - Information Technology	61	0%	Inter-departmental charges for information technology: network access, desktops, laptops, dial-up, repair, pager, radio communication, telephone.
Type J - Procurement and Material Management			
Subcontractor Administrative costs (administrative only, report other subcontractor costs in the appropriate category)	Not included for Residential Programs. For Nonresidential Programs - 4209 (10% is considered Admin and 90% is Direct Implementation). Contractors charging to 4209 are generally SBD and SPC implementation contractors performing field verification work. The allocation percentage was developed by SCE management based on the nature of the activities performed by the contractors.		
Labor	161	0%	10% as discussed above. Specific examples of costs based on our sample testing include: direct marketing of CEEP, SPC program development.
Benefits			
Overhead			
Travel costs			
Reporting costs			
Materials & Handling			
Profit			
Marketing/Advertising/Outreach Costs			
Type A - Brochures/Booklets	394	1%	Inter-department charges for graphics production, advertising contractors
Type B - Media Support	1,034	2%	Inter-department charges for graphics production, advertising contractors, postage, direct mailings.
Type C - Outreach	575	1%	Includes employee expenses, advertising and communications contractors, and labor for SPC, marketing of programs.
Direct Implementation Costs			
Itemized financial incentives	15,129	30%	Financial incentives. Same costs as those reported as administrative costs in the Annual Reports.
Itemized installation costs			
Itemized hardware/materials costs			
	1,444	3%	90% as discussed above
Itemized activity costs [Note 1]	16,125	32%	Contractor Costs. Specific examples of costs based on our sample testing include: energy survey translation costs, savings by design website design costs, misc. equipment for CTAC and AgTAC
Rebate Processing/Inspection			
E.E. Phone Center	327	1%	Temporary agency, SCE labor and other costs associated with processing center. Includes phone charges.

Exhibit VI-27: SCE Quarterly Report Workbook Cost are Classified Using Accounting Codes

Cost Category	All PY 2002 Costs	Percent	Discussion
Nonresidential Express Efficiency Rebate Processing	15	0%	Temporary agency
Inspections & Processing	496	1%	Temporary agency, SCE labor and other costs associated with processing center.
EM&V Costs			
Reporting/Tracking/ Development - Information Services	585	1%	This is the only EM&V category used by SCE. SCE Labor, consultants and other costs.
Other Costs			
Less Costs Not Charged to this Program (e.g., benefits recovered by alternate means, as noted above)	Reversed from Pension & Benefits above.		

Note 1: Cost provided above for Materials and Handling and Itemized Activity Costs include payments to administrators of non-utility local programs. SCE does not include these costs in its program specific Quarterly Workbooks provided to the Commission.

Source: blueCONSULTING analysis; Data Responses 20, 140 and 192; Transaction detail database (Data Response 77).

- Transaction testing performed as part of the audit of energy efficiency expenditures identified some inconsistencies in the classification of costs. These inconsistencies are reflected in the costs reported in the Quarterly Workbooks.

⇒ CTAC and AgTAC catering costs are classified as both function 4247, itemized activity costs and function 4240, materials and handling.

⇒ Function 4240, materials and handling, functions as a catch-all for miscellaneous costs. Costs reported in this category include: inter-departmental charges for graphics production, cell phones, online ordering, desktops, labor adders (paid absence, earnings adjustments), office supplies, employee expenses, dues, memberships, contractor program implementation costs (including incentives), statewide marketing campaign costs, training classes, hotel charges for vendor workshops.

⇒ Performance of in-home and telephone energy audits was classified as function 4267 brochures and booklets.

C14. SCE's administrative cost levels vary considerably by program, ranging from 3 to 44 percent for program year 2002. As a result, caution must be exercised in making comparisons or establishing caps.

- Exhibit VI-28** shows SCE's administrative costs by program as reported in SCE's Quarterly Report. With the exception of the Codes and Standards Advocacy, administrative costs are higher for the informational programs than for the incentive programs.

Exhibit VI-28: PY 2002 Cost Breakdown SCE Programs - Actual and Committed Costs Sorted in Order of Programs with the Highest Direct Implementation Costs

Program	Type	Admin	M/A/O	DI	EM&V
Statewide Programs					
Codes and Standards Advocacy	Info	6.4%	0.0%	93.6%	0.0%
Residential Appliance Recycling	Rebate/Incentive	6.2%	1.6%	92.2%	0.0%
CA Energy Star New Homes-MF	Rebate/Incentive	7.5%	0.7%	91.7%	0.0%
CA Energy Star New Homes-SF	Rebate/Incentive	8.6%	0.3%	91.1%	0.0%
SPC	Rebate/Incentive	8.3%	2.2%	89.5%	0.0%
Upstream Residential Lighting	Rebate/Incentive	12.3%	2.1%	85.6%	0.0%
Multifamily EE Rebates	Rebate/Incentive	13.7%	1.1%	85.3%	0.0%
Savings by Design	Rebate/Incentive	17.3%	0.0%	82.7%	0.0%
Single Family EE Rebates	Rebate/Incentive	11.5%	8.9%	79.6%	0.0%
Express Efficiency	Rebate/Incentive	17.3%	3.8%	78.9%	0.0%
Nonresidential Energy Audits	Info	23.2%	5.8%	71.0%	0.0%
Home Energy Efficiency Surveys	Info	11.1%	23.1%	65.8%	0.0%
Emerging Technologies	Info	39.3%	0.0%	60.6%	0.0%
Building Operator Certification	Info	40.0%	0.0%	60.0%	0.0%
Education and Training	Info	43.8%	2.5%	53.7%	0.0%
Marketing and Outreach	Info	2.5%	97.5%	0.0%	0.0%
Local Programs					
Local Government Initiative	Info	7.4%	0.5%	86.5%	5.6%
Demonstration and Info. Transfer	Info	11.5%	0.0%	83.0%	5.6%
Small Nonresidential Hard to Reach	Rebate/Incentive	10.6%	0.8%	83.0%	5.5%
Local Codes and Standards	Info	25.1%	0.0%	69.9%	5.0%
Residential In-Home Energy Survey	Info	6.1%	19.2%	66.2%	8.6%
Pump Test and Hydraulic Services	Info	40.2%	0.5%	57.6%	1.7%

Source: Southern California Edison Company's 2002 Energy Efficiency Programs Final Fourth Quarter Report dated May 2003 (hard copy report, not electronic files).

SDG&E

C15. The process that SDG&E used to assign costs to cost categories in the Annual Reports is reasonable. However, it did not report any contract costs as it did not receive sufficient guidance on what these costs included. SDG&E complied with the Commission reporting requirements to the best of its ability and knowledge of the Commission requirements.

- SDG&E followed instructions and directions that were promulgated by the Commission in the compilation of data, accounting for transactions, and filing of their Annual Reports. However, the Commission did not provide sufficient and complete direction regarding what was to be reported.

- For instance, SDG&E did not know what was supposed to be included in the Annual Reports as contract costs. SDG&E stated that the Commission did not provide sufficient guidance on what was to be classified as contract costs, and these types of costs were not defined anywhere. Lacking other instructions, SDG&E reported these costs in the non-labor section.
- Cost elements in SDG&E cost tracking and accounting systems are not automatically mapped to the Annual Report categories. This mapping is a manual process.
- **Exhibit VI-29** describes the types of costs included in each of the categories of cost in the Annual Reports.

Exhibit VI-29: Classification of Administrative Costs in SDG&E's Annual Reports is Based on Accounting Cost Elements. SDG&E Did Not Classify Any Costs as Contract Costs.

Cost Category in Annual Report	Cost Elements Included
Labor	There are labor-specific codes in the accounting system. All labor related codes are included in this category. Examples of these labor codes are: 6110020 – Salary, Management 9100031 – Compensation Incentive Payment 6110080 – Salary, Clerical/Tech, Straight Time 6110090 – Salary, Clerical/Tech, Time and a Half 6110100 – Salary, Clerical/Tech, Double Time
Non-Labor	Includes all cost elements that were not included in Labor or Allocated.
Contract	This category was not used by SDG&E. Contract costs were included in the Non-Labor category.
Allocated	Any costs that are allocated to Energy Efficiency programs are included in this category. Examples of these labor codes are: <ul style="list-style-type: none"> • Regulatory Support • Facilities Support • Information Technology Support • Com./Telecom./Automated Systems Support
Incentives (Actual and Committed)	There are codes in the accounting system for incentives. These costs are all allocated to this category. Examples of incentive codes are: 6230800 – No PO, Conservation Incentive 6220800 – PO, Conservation Incentive
Shareholder Incentives	Shareholder incentives which are claimed by SDG&E
Other	This category was not used by SDG&E.

Source: SDG&E IR-DW-006.

C16. The process SDG&E uses to assign costs to cost categories in the PY 2002 Quarterly Workbooks is reasonable. The cost classifications in the PY 2002 Regulatory Reporting reports generally reflect the definitions put forth by the Commission.

- Cost elements in SDG&E cost tracking and accounting systems are not automatically mapped to the PY 2002 Regulatory Reporting categories. This mapping is a manual process.
- **Exhibit VI-30** describes the types of costs included in each of the categories of cost in the Annual Reports.

Exhibit VI-30: SDG&E Quarterly Workbook Costs are Classified Based on Accounting Data, Allocations and Estimates

Cost Category in Annual Report	Cost Elements Included
Administrative	
Labor	
Type A – Program Planning/Design/Program Mgmt	<p>There are labor-specific codes in SAP. The two primary cost elements used in these categories are:</p> <p>6110020 – Salary, Management</p> <p>9100031 – Compensation Incentive Program</p> <p>Generally the Type B category is not used by SDG&E. In the one instance where it was used, it was manually allocated from the above cost elements.</p> <p>The 9100031 Cost Element also includes Clerical CIP payments, allocation between the two categories is manually completed.</p> <p>Labor costs captured in the above Cost Elements, may be more appropriately categorized in other labor related Cost Categories, i.e. Rebate/ Application Processing. Where this is the case, labor costs are manually allocated to the appropriate category by the Program Manager based on their knowledge of the cost.</p>
Type B – Mgmt/Supervisor	
Type C – Clerical Support	<p>There are clerical labor specific codes in SAP. They are:</p> <p>6110080 – Salary, Clerical/Tech Straight Time</p> <p>6110090 – Salary, Cler/Tech Time and a Half</p> <p>6110100 – Salary, Clerical/Tech Double Time</p> <p>6220380 – PO, Services, Temp Agency Labor</p> <p>The 9100031 Cost Element, Compensation Incentive Program includes both Management and Clerical CIP payments, allocation between the two categories in manually completed.</p> <p>Labor costs captured in the above Cost Elements, may be more appropriately categorized in other labor related Cost Categories, i.e. Rebate/Application Processing. Where this is the case, labor costs are manually allocated</p>
Benefits	
Pension & Benefits	These expenses are zeroed out in the Other Costs section, i.e. there is a negative number in the Other Costs section
Payroll Taxes Benefits	There is a specific cost element codes : 9100002 – Payroll Taxes
Travel/Conference/Training	
Type A – Mileage and Parking	<p>There are specific cost element codes in SAP for this category. They are:</p> <p>6130001 – Employee Travel, Air</p> <p>6130002 – Employee Travel, Rail</p> <p>6130012 – Employee Travel, Mileage</p> <p>6130014 – Employee Travel, Parking</p> <p>6130016 – Employee Travel, Car Rental</p> <p>6130017 – Employee Travel, Taxi/Shuttle</p> <p>6260004 – Vehicle Utilization Charge</p> <p>9501040 – Int Sett, Employee Travel</p>
Type B – Other, Meals, Lodging, Misc. Expenses	<p>There are specific cost element codes in SAP for this category. They are:</p> <p>6130010 – Meals & Tips</p> <p>6130015 – Employee Travel, Meals/Enter</p> <p>6130020 – Employee Travel, Hotel/Lodging</p> <p>6130050 – Employee Travel, Other</p>

Exhibit VI-30: SDG&E Quarterly Workbook Costs are Classified Based on Accounting Data, Allocations and Estimates

Cost Category in Annual Report	Cost Elements Included
Type C – Conferences/Training Activities	SDG&E does not charge Conference costs to Energy Efficiency programs. In 2002, this category was only used once. In this one instance, a travel cost was assigned to this category by the Program Manager based on their understanding of the nature of the cost.
Reporting/Tracking/Dev – Information Services	These costs are tracked using a single Internal Order number. Costs are then allocated to Energy Efficiency programs by the Analysis & Support group. The allocation is based on Program Expenditures (i.e. total Expenditures less EM&V and Overhead and General and Administrative costs).
Materials & Handling	There are many specific cost element codes in SAP for this category. Examples include: <ul style="list-style-type: none"> • 6110140 – Employment Contract Straight Time • 6110150 – Employment Contract Time and a Half • 6110160 – Employment Contract Double Time • 6211020 - No PO, Material, Computer Equip. • 6211085 - No PO, Material, Freight • 6320002 - Tele-Cellular Services
Type A – Regulatory Support	These costs are tracked using a single Internal Order number. All costs associated with this category are included, i.e. this includes labor, materials, etc. Costs are allocated to Energy Efficiency programs by the Analysis & Support group. The allocation is based on Program Expenditures (i.e., total Expenditures less EM&V and Overhead and General and administrative costs).
Type B – Accounting Support	Costs allocated to this category are pure estimates made by the Analysis & Support group. There are no specific Cost Elements associated with this category. These expenses are zeroed out in the Other Costs section, i.e. there is a negative number in the Other Costs section.
Type C – Comm/Telecomm/Automated Systems	SDG&E did not use this category.
Type D – Human Resources Support	Costs allocated to this category are pure estimates made by the Analysis & Support group. There are no specific Cost Elements associated with this category. These expenses are zeroed out in the Other Costs section, i.e. there is a negative number in the Other Costs section.
Type E – Facilities Support	These costs are tracked using a single Internal Order number. All costs associated with this category are included, i.e. this includes labor, materials, etc. Costs are allocated to Energy Efficiency programs by the Analysis & Support group. The allocation is based on Program Expenditures (i.e., total Expenditures less EM&V and Overhead and General and administrative costs).
Type F – Supervision	SDG&E did not use this category.
Type G – Corporate Services	Costs allocated to this category are pure estimates made by the Analysis & Support group. There are no specific Cost Elements associated with this category. These expenses are zeroed out in the Other Costs section, i.e. there is a negative number in the Other Costs section.
Type H – Transportation Services, Shop Services	SDG&E did not use this category.

Exhibit VI-30: SDG&E Quarterly Workbook Costs are Classified Based on Accounting Data, Allocations and Estimates

Cost Category in Annual Report	Cost Elements Included
Type I – Information Technology	These costs are tracked using a single Internal Order number. All costs associated with this category are included, i.e. this includes labor, materials, etc. Costs are allocated to Energy Efficiency programs by the Analysis & Support group. The allocation is based on Program Expenditures (i.e., total Expenditures less EM&V and Overhead and General and administrative costs).
Type J – Procurement and Material Mgmt	SDG&E did not use this category.
Subcontractor Administrative Costs	
Labor	SDG&E did not use this category.
Benefits	
Overhead	
Travel Costs	
Reporting Costs	
Materials & Handling	
Overhead and G&A Costs	
Profit	
Marketing & Outreach Costs	
Type A – Brochures/Booklets	<p>There are Marketing-specific cost element codes in SAP. Examples include:</p> <p>6211470 – No PO, Material, Printed Material</p> <p>6213475 – PO, Material, Printing Brochures</p> <p>6220390 – Graphics</p> <p>Marketing costs are manually assigned to Type A, B or C categories by the Analysis & Support group. Program Managers review the allocations and make revisions based on their knowledge of how the costs were incurred.</p>
Type B – Media Support	
Type C – Outreach	
Direct Implementation Costs	
Itemized Financial Incentives	<p>There are specific cost element codes related to Incentive Payment in SAP. They are:</p> <p>6230800 – No PO, Conservation Incentive</p> <p>6220800 –PO, Conservation Incentive</p> <p>For the most part, costs are assigned to the “Itemized Financial Incentives” cost category. Costs may be manually allocated to other categories by Program Managers, based on their knowledge of the program.</p>
Itemized Installation Costs	
Itemized Hardware/Materials Costs	
Itemized Activity Costs	
Rebate Processing/Inspection	
Evaluation, Measurement and Verification Costs	
EM&V Labor	SDG&E did not assign EM&V costs to any category. There is a single Internal Order which tracks EM&V costs. EM&V costs are manually allocated to Energy Efficiency programs by the Analysis & Support group.
Benefits	
Travel/Conference/Training	
Reporting Costs	
Materials & Handling	
Other Costs	
	SDG&E uses this category to back out certain Overhead and General and Administrative expenses, specifically Types B, D and G. All entries in this category have a negative value.

Source: SDG&E IR-DW-006, DR-JDH-001.

SCG

C17. The actual costs included in the SCG's Energy Efficiency Programs Annual Reports generally match the accounting data.

- A reconciliation between the actual costs reported in SCE's annual reports and the accounting data for each program year is shown in **Exhibit VI-31**.

C18. As a result of organizational and system changes associated with the merger between SDG&E and SCG, only limited information is available regarding the processes SCG used to compile annual reports during the first three years of the audit period.

- Many of the employees who were responsible for the accumulation and tracking of energy are no longer with SCG, resulting in a considerable loss of institutional knowledge.
- SCG lacked a comprehensive policy governing the preservation and archiving of the electronic and hardcopy files that were used to prepare Commission reports for this period. The spreadsheets and databases that were used to prepare quarterly reports to the commission were not preserved. For 1998-2001, monthly and quarterly spreadsheets were overwritten each month, but year-end materials which supported annual reports were saved. Since 2002, SCG has maintained quarterly electronic spreadsheets.

C19. SCG's regulatory reporting of energy efficiency costs evolved over time from a rudimentary, fragmented system into a more streamlined system with internal reporting standards. From a systems perspective, the reporting improved over time; however, some elements of the accounting structure remain poorly matched to the reporting requirements of the Commission.

- In the years 1998 to 2000, programs were administered by program managers and staff using a number of spreadsheet and database programs. The spreadsheets and databases were maintained informally and were not prepared using an organization-wide standard. They were not indexed or archived.
 - ⇒ These offline, single-entry systems contained few of the protections against human error that are contained within double-entry systems. While online systems were used to record and track costs, the reported results were then put into spreadsheet files for conversion into the annual reporting formats.
 - ⇒ As discussed in Chapter V, blueCONSULTING was unable to verify the costs in this time period as there is only limited supporting documentation available.

Exhibit VI-31: SCG's Annual Report Costs Can Be Reconciled with Its Accounting Data
(Dollars in Thousands)

Cost Category	1998			1999			2000			2001			2002		
	Incent.	Admin	Total	Incent.	Admin	Total	Incent.	Admin	Total	Incent.	Admin	Total	Incent.	Admin	Total
Actual Costs Reported in Annual Report															
Residential	-	\$2,309	2,309	3,519	2,631	6,149	5,089	4,356	9,445	3,873	3,974	7,847	3,023	1,514	4,536
Non-Residential	\$2,778	8,741	11,519	3,172	7,268	10,440	6,903	6,455	13,358	6,839	6,893	13,732	3,033	4,408	7,441
New Construction	24	2,449	2,473	-	4,423	4,423	516	4,449	4,965	2,801	4,646	7,447	1,682	1,469	3,151
Cross-Cutting	-	-	-	-	-	-	-	-	-	-	-	-	100	4,322	4,422
Summer Initiative	-	-	-	-	-	-	-	-	-	-	3,960	3,960	-	-	-
Statewide Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-IOU Programs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MA&E & Reg. Oversight	-	1,646	1,646	-	2,369	2,369	-	2,397	2,397	-	2,481	2,481	-	-	-
CBEE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Low Income Energy Efficiency	11,005	2,568	13,573	-	16	16	13,632	2,779	16,412	-	-	-	-	-	-
Total	13,807	17,713	31,520	6,691	16,707	23,397	26,140	20,436	46,577	13,513	21,954	35,467	7,837	11,713	19,549
Revised Residential, Non-Residential, New Construction expenditures (Includes Admin and Incentives)								35	35						
MA&E Expenditures (Not included in Annual Report)		625	625				(13,632)	(2,779)	(16,412)						
Low Income Energy Efficiency											(3,960)	(3,960)			
Summer Initiative							12,508	17,692	30,200		17,994	31,507			
Adjusted Total		18,338	32,145												
Unexplained															
Accounting Total			32,145			23,397			30,200			31,507			19,549

Source: Reconciliation between Annual Reports and Desegregation Work Papers (Response SCG-JDM-001)

- During 2000, SCG participated in a process of systems integration, whereby many SDG&E systems were adopted. For most of the audit period, SCG's energy efficiency cost accumulation has been accomplished in SAP. SAP which accumulates costs based on Internal Orders (IO), which roughly correspond to program years. SAP reports are used to prepare the quarterly and annual reports to the Commission.
- Many estimates are involved in adjusting SAP data before reports are prepared, due to the still-rudimentary interface between off line and on-line systems (WITS and SAP), compounded by a poor matching between Commission reporting categories and IOs. Program managers and analysis and support personnel review reported costs monthly, especially during the last quarter of each year and adjust costs to reflect what the managers believe actually occurred.
- SCG underutilizes SAP through its process of recording costs to an IO/element combination, with IOs and elements poorly matched to the reporting requirements of the Commission. SAP has substantial capabilities and could be used to record and accumulate cost and budget information at virtually any level of detail desired.

C20. The cost classifications in the Annual Reports do not fully reflect the Commission definitions because SCG did not always distinguish between allocated, contract and non-labor costs.

- SCG believes the cost definitions from the Commission have not been clear.
- SCG prepares its Annual Reports through a manual (spreadsheet) process using data from many sources. In recent years, Annual Report data has been extracted mainly from SAP. Before SCG migrated to SAP, annual reports were prepared directly from a group of offline spreadsheets, databases and information from BAS. As recently as 2002, manual apportionment of some costs was necessary to configure SAP data into annual reports.
- The classification of costs in SCG's Annual Reports is summarized in **Exhibit VI-32**. In most years in the audit period, SCG did not separately identify contract and allocated costs.

Exhibit VI-32: Classification of Administrative Costs in SCG's Annual Reports is Based on Accounting Cost Elements. SCG Did Not Classify Any Costs as Contract Costs in 1998 and 2002, and Only Classified Costs as Allocated in 2002.

Cost Category in Annual Report	Cost Elements Included
Administrative Costs	
Labor	There are labor-specific codes in the accounting system. All labor related codes are included in this category.
Non-Labor	All cost elements that were not included in Labor or Allocated (Year 2002 only) categories are included here.
Contract	Only used in PY 1998 and 2002. Examples of costs included are: 6230000 – No PO-SRV-Contactor 6230004 – No PO-SRV-Contr Lbr
Allocated	SCG only used this category in 2002. It includes certain labor costs, Employee Travel, Temporary Agency Labor and Consulting. Examples of these labor codes are: 6110020 – SAL-MGMT S/T 6110283 – SAL-VAC MGT 6110293 – SAL-HOLIDAY MGT 6110321 – SAL OTHER NON PROD MGT
Incentives (Actual and Committed)	There are codes in the accounting system for incentives. These costs are all allocated to this category. Examples of incentive codes are: 6230800 – No PO, Conservation Incentive 6220800 – PO, Conservation Incentive
Shareholder Incentives	
Other	This category was not used by SCG.

Source: Data Response SCG-JDM-001.

- SCG reported costs in the “allocated” category only in its 2002 annual report filing. Its reported allocated costs included labor and consulting charges which were allocated, but did not include numerous other allocated costs, such as “non-labor”. SCG does not tag allocated costs as a cost category for its internal purposes. Allocated costs are identified from a study of individual charges to specific IOs.
- SCG only reported contract costs in the years 1998 and 2002. In other years, these costs were included in the “Non-Labor” category.

C21. SCG does not report costs in all of the categories listed in the Quarterly Workbooks due to limitations in its cost information collection process. SCG reports costs based on what is available from its own cost accumulation systems. While SCG has the information systems capability to accumulate and report data for all relevant categories, SCG has not chosen to use its systems to provide that level of detail. SCG believes that not all cost categories may be relevant for reporting its costs.

- A summary of the classification of costs in SCG's 2002 Quarterly reports is shown in **Exhibit VI-33.**

Exhibit VI-33: SCG Does Not Report Costs in All of the Categories Listed in the Quarterly Workbooks. Costs are Classified Based on Accounting Data, Allocations and Estimates

Cost Category in Annual Report	Cost Elements Included
Administrative	
Labor	
Type A – Program Planning/Design/Program Mgmt	There are labor-specific codes in SAP. The two primary cost elements used in these categories are: 6110020 – Salary, Management 9100031 – Compensation Incentive Program The 9100031 Cost Element also includes Clerical CIP payments, allocation between the two categories is manually completed. Labor costs captured in the above Cost Elements, may be more appropriately categorized in other labor related Cost Categories, i.e. Rebate/ Application Processing. Where this is the case, labor costs are manually allocated to the other categories.
Type B – Mgmt/Supervisor	Not Used by SCG
Type C – Clerical Support	There are clerical labor specific codes in SAP. They are: 6110080 – Salary, Clerical/Tech Straight Time 6110090 – Salary, Cler/Tech Time and a Half 6110100 – Salary, Clerical/Tech Double Time 6220380 – PO, Services, Temp Agency Labor The 9100031 Cost Element, Compensation Incentive Program includes both Management and Clerical CIP payments, allocation between the two categories in manually completed. Labor costs captured in the above Cost Elements, may be more appropriately categorized in other labor related Cost Categories, i.e. Rebate/Application Processing. Where this is the case, labor costs are manually allocated
Benefits	
Pension & Benefits	There are specific cost element codes in SAP for this category. They are: 9100001 – Vacation & Sick (treated as employee benefits cost) While the above costs were listed in Table A, but SCG did not apply any costs to them. 9100054 – Workers Compensation 6120002 – Employee Benefits, Health 9100047 – PLPD OH
Payroll Taxes Benefits	Cost Element 9100002 – Payroll Taxes (backed out below)
Travel/Conference/Training	
Type A – Mileage and Parking	There are specific cost element codes in SAP for this category. They are: 6130001 – Employee Travel, Air 6130002 – Employee Travel, Rail 6130012 – Employee Travel, Mileage 6130014 – Employee Travel, Parking

Exhibit VI-33: SCG Does Not Report Costs in All of the Categories Listed in the Quarterly Workbooks. Costs are Classified Based on Accounting Data, Allocations and Estimates

Cost Category in Annual Report	Cost Elements Included
	6130016 – Employee Travel, Car Rental 6130017 – Employee Travel, Taxi/Shuttle 6260004 – Vehicle Utilization Charge 9501040 – Int Sett, Employee Travel
Type B – Other, Meals, Lodging, Misc. Expenses	There are specific cost element codes in SAP for this category. They are: 6130010 – Meals & Tips 6130015 – Employee Travel, Meals/Enter 6130020 – Employee Travel, Hotel/Lodging 6130050 – Employee Travel, Other
Type C – Conferences/Training Activities	SCG does not use this category. Such costs are reported as : Marketing/Advertising/Outreach Costs Type B Media Support – 6230640 No PO, Training & Seminars
Reporting/Tracking/Dev – Information Services	
Reporting/Tracking/Development – Information Services:	No costs reported
Materials & Handling	
Materials and Handling	Includes costs office supplies, computer equipment, software, subscriptions, vehicles and equipment rental, stationary, freight and storage.
Overhead and General and Administrative Costs	Overhead and General and Administrative Costs
Type A – Regulatory Support	Not used. SCG does not allocate overhead SCG reports subcontractor costs in the appropriate category based on the services provided by the contractor. As such, the item “subcontractor costs” is partially or fully subsumed into other categories.
Type B – Accounting Support	
Type C – Comm/Telecomm/Automated Systems	
Type D – Human Resources Support	
Type E – Facilities Support	
Type F – Supervision	
Type G – Corporate Services	
Type H – Transportation Services, Shop Services	
Type I – Information Technology	
Type J – Procurement and Material Mgmt	
Subcontractor Administrative Costs	
Labor	
Benefits	
Overhead	
Travel Costs	
Reporting Costs	
Materials & Handling	
Overhead and G&A Costs	
Profit	
Marketing & Outreach Costs	
Type A – Brochures/Booklets	SCG uses Marketing-specific cost element codes in SAP. Examples include:
Type B – Media Support	

Exhibit VI-33: SCG Does Not Report Costs in All of the Categories Listed in the Quarterly Workbooks. Costs are Classified Based on Accounting Data, Allocations and Estimates

Cost Category in Annual Report	Cost Elements Included
Type C – Outreach	6211470 – No PO, Material, Printed Material 6213475 – PO, Material, Printing Brochures 6220390 – Graphics Marketing costs are manually assigned to Type A, B or C categories by the Analysis & Support group. Program Managers review the allocations and make revisions based on their knowledge of how the costs were incurred.
Direct Implementation Costs	
Itemized Financial Incentives	There are specific cost element codes related to Incentive Payment in SAP. They are: 6230800 – No PO, Conservation Incentive 6220800 –PO, Conservation Incentive For the most part, costs are classified as “Itemized Financial Incentives”. Costs may be manually allocated to other categories by Program Managers, based on their knowledge of the program. Also may include labor costs allocated
Itemized Installation Costs	
Itemized Hardware/Materials Costs	
Itemized Activity Costs	
Rebate Processing/Inspection	
Evaluation, Measurement and Verification Costs	
EM&V Labor	SCG did not assign EM&V costs to any category. There are several Internal Orders which track EM&V costs: FG9100152200 - DSM M&E PGM MEAS LOAD IMPCT STUDIES FG9100162200 - DSM M&E PGM MEAS STATEWDE STUDIES FG9100172200 - DSM M&E PGM MEAS PROCESS STUDIES FG9100182200 - DSM M&E PGM MEAS OTHER FG9100202200 - DSM M&E DMND FRCAST LOAD MET OTH FG9100232200 - DSM M&E DEMAND FORECASTING MKT ASSESME FG9100272200 - DSM M&E RCC REG REPORT & SUPPORT FG9100282200 - DSM M&E RCC REG OVERSIGHT FG9101012200 - DSM MEASUREMENT & EVALUATION STUDIES EM&V costs are manually allocated to Energy Efficiency programs by the Analysis & Support group
Benefits	
Travel/Conference/Training	
Reporting Costs	
Materials & Handling	
Other Costs	
	SCG uses this category to back out certain administrative expenses such as payroll taxes and employee benefits which are loaded into specific SAP IOs for non-Commission reporting purposes, then reversed for Commission reporting

Source: Document Response SCG-LCJ-006.

- SCG does not report the following costs:
 - ⇒ General and Administrative Costs (A subcategory of Administrative Costs). SCG does not charge this expense to energy efficiency programs. Instead, it estimates this expense and then backs it out.
 - ⇒ Implementation costs other than incentive costs (Included in Administrative Costs)
- While not all required categories are used by SCG, the utility believes its reporting is consistent with other Commission Manuals and that it has fulfilled its reporting responsibility.
- SCG considers Commission acceptance of its reports as an affirmation of the validity of such reports.^v
- There are no specific mandates requiring the use of every prescribed cost category in reporting.
- In response to a blueCONSULTING data request, SCG stated that the costs are consistent with the cost categories defined by the energy efficiency Policy Manual and these cost categories are not intended to be consistent with other Commission manuals such as the Standard Practice Manual, Reporting Requirements.

2. Recommendations for the Utilities and the Commission

- R1. The utilities and the Energy Division should work together to develop reporting requirements that meet the needs of the Commission and provide accurate, consistent information, but are not unduly burdensome for the utilities and take into account the manner in which the utilities' accounting systems aggregate costs.**
- R2. Prior to determining administrative cost limits or performing comparative analyses, the Commission should develop consistent standards regarding what are allowable energy efficiency costs, and how these costs should be classified. It is not possible to specify minimum or maximum administrative cost limits without a solid definition of what these costs include.**
- R3. The Commission should consider a requirement that each reporting IOU file with its quarterly and annual reports an affirmation signed by an officer with the IOU that states a) that the utility has a reliable system of recording and summarizing costs; b) that the system is subjected to quality control testing, such as internal audits; c) that employees receive sufficient training in the use of the system and in Commission reporting requirements; and d) that errors found are corrected immediately and procedures reviewed to avoid similar errors occurring in the future. Absent such a**

^v SCG states that provided that the utility has submitted an application, advice letter, motion or other similar pleading (Pleading) requesting Commission guidance on a particular issue or issues (Issue(s)), standard industry practice generally provides that when the Commission makes a ruling or rulings addressing or affecting the Pleading, silence by the Commission on the Issue(s) can reasonably be interpreted as approval by the Commission

positive affirmation (which all publicly-held IOUs now provide to the SEC for their financial statements as a whole), the belief that filing the annual report discharges all IOU reporting responsibilities to the Commission will continue.

- R4. SCG should develop an accounting structure for energy efficiency programs which facilitates the reporting of costs in accordance with the Commission requirements. Other utilities, such as PG&E, have specifically created accounting orders in order to obtain the data necessary to meet the Commission's reporting requirements. (Refers to Conclusion C19)